

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)

(Incorporated in Malaysia)

Directors' Report and Financial Statements

31 December 2017

DIRECTORS' REPORT

For the year ended 31 December 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the provision of banking and other related financial services.

RESULTS

	RM'000
Profit before taxation	103,991
Tax expense	<u>(28,160)</u>
Profit for the year	<u>75,831</u>

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

DIVIDENDS

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year.

DIRECTORS OF THE BANK

Directors who held office during the financial year until the date of this report are:

Mr Chang Zhenwang

YBhg Dato' Leong Khee Seong

Mr Ong Ah Tin @ Ong Chee Kwee

Mr Chin Chee Kong (Appointed on 10 August 2017)

Mr Wang Qiang (Appointed on 22 November 2017)

Mr Hong Guilu (Resigned on 10 August 2017)

Ms Lan Li (Resigned on 22 November 2017)

In accordance with Article 73 of the Bank's Articles of Association, Mr Ong Ah Tin retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 79 of the Bank's Articles of Association, Mr Chin Chee Kong retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

PROFILE OF DIRECTORS

Mr Chang Zhenwang

Age 55. Chinese. Non-Independent Non-Executive Director and Chairman of the Board of Directors. Appointed to the Board on 28 October 2016. Attended all the six Board meetings held in the financial year. Holds a Master Degree in Business Administration from Fudan University and University of Hong Kong (International), China.

Mr Chang Zhenwang carries with him more than 30 years of banking experience. He started his career with Industrial and Commercial Bank of China Limited (“ICBC”) in 1986 and held various positions since then ranging from Officer and Deputy Director of Administration Department, ICBC Anhui Branch (December 1986 - November 1997), Deputy President of ICBC Bengbu Branch (December 1997 - March 1998), Deputy President (Officer-in-Charge) of ICBC Suxian Branch (April 1998 - April 1999) and subsequently as President of the branch before taking up the position as Chief Executive Officer of Banking Office in ICBC Anhui Branch from July 1999 until February 2002. Mr Chang Zhenwang was appointed Deputy President of ICBC Anhui Branch in March 2002 before assuming the position as President of the branch in April 2011 until his retirement in March 2015. He is currently a Non-Executive Director/Chairman of ICBC International Holdings Limited (March 2016 - current), ICBC Financial Leasing Co., Ltd (June 2016 - current) and ICBC (Almaty) Joint Stock Company (December 2016 - current).

Mr Chang Zhenwang has no conflict of interest with the Bank and has no family relationship with any other Director.

Mr Wang Qiang

Age 48. Chinese. Chief Executive Officer/Managing Director (“CEO/MD”). Appointed to the Board on 22 November 2017. Attended one Board meeting held in the financial year since his appointment. He holds Master Degree in Business Administration (International) from The University of Hong Kong and Bachelor Degree in Investment Management from Central University of Finance and Economics.

Mr Wang Qiang has more than 24 years of experience in banking industry, involving in among others, corporate banking, equipment leasing, credit assessment, risk management and mergers and acquisitions. He has held various senior positions within ICBC Group and was formerly the Executive Director of ICBC Turkey Bank A.S. before assuming the position as CEO/MD of ICBC Malaysia.

Mr Wang Qiang has no conflict of interest with the Bank and has no family relationship with any other Director.

YBhg Dato’ Leong Khee Seong

Age 79. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended all the six Board meetings held in the financial year. Engineer by profession with B.E. (Chemical Engineering) from the University of New South Wales, Australia.

YBhg Dato’ Leong Khee Seong served the Malaysian Government as the Minister of Primary Industries (1976 - 1986) and was a member of Parliament (1974 - 1990). He was a former Chairman of the Group of 14 ASEAN Economic Cooperation and Integration (1986 - 1987) and General Trade Agreement on Tariffs and Trade’s Negotiating Committee on Tropical Products (1986 - 1990). He was formerly an Independent Non-Executive Director of Sin Chew Media Corporation (2004 - 2007), AirAsia Berhad (2004 - 2013) and TSH Resources Berhad (2005 - 2014) as well as a Non-Independent Executive Director cum Executive Chairman of Nanyang Press Holdings Berhad (2007 - 2009). He is currently the Chancellor of HELP University Malaysia (April 2012 - current).

PROFILE OF DIRECTORS *(continued)*

YBhg Dato' Leong Khee Seong *(continued)*

YBhg Dato' Leong Khee Seong has no conflict of interest with the Bank and has no family relationship with any other Director. He is also the chairman of the Audit Committee and Nomination & Remuneration Committee and a member of the Board Risk Management Committee of the Bank.

Mr Ong Ah Tin @ Ong Chee Kwee

Age 67. Malaysian. Independent Non-Executive Director. Appointed to the Board on 3 June 2010. Attended all the six Board meetings held in the financial year. Holds a Bachelor of Arts Degree in Economics from the University of Malaya and Diploma in Banking from Institute of Bankers, London.

Mr Ong Ah Tin started his banking career with Citibank Malaysia (then known as First National City Bank) as a Management Trainee in 1973 and held various positions in Operations, Credits and Marketing until August 1988 when he left as the Vice President of Credit Risks Management Department. In 1988, he joined Malaysian French Bank as an Assistant General Manager until 1994, thereafter he joined OUB Finance Berhad as Director/General Manager. After the merger of OUB Finance Berhad with its parent bank, Overseas Union Bank (M) Berhad in 1997, he was assigned to Overseas Union Bank (M) Berhad as Head of Enterprise Banking until 2002. Following that, he joined Alliance Finance Berhad as Acting CEO to manage the finance company's operations and to undertake the merger of Alliance Finance Berhad with its parent bank, Alliance Bank Malaysia Berhad. Upon the successful completion of the merger in 2004, he was assigned as a Senior General Manager and Head of Consumers Banking of Alliance Bank Malaysia Berhad until August 2005, when he retired from the banking industry. Mr Ong Ah Tin served as an Independent Non-Executive Director of Hock Sin Leong Group Berhad from April 2006 to December 2006.

Mr Ong Ah Tin has no conflict of interest with the Bank and has no family relationship with any other Director. He is also the chairman of the Board Risk Management Committee and a member of the Audit Committee and Nomination & Remuneration Committee of the Bank.

Mr Chin Chee Kong

Age 61. Malaysian. Independent Non-Executive Director. Appointed to the Board on 10 August 2017. Attended all the two Board meetings held in the financial year since his appointment. He is a Chartered Accountant and a Certified Public Accountant, being a member of the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA) respectively.

Mr Chin Chee Kong has 35 years of experience in providing audit, taxation and corporate advisory services (including corporate finance and corporate restructuring) to clients in a wide range of industries. He started his career as an audit junior with Peat Marwick Mitchell & Co (now known as KPMG PLT) in 1979 and had held various positions before being promoted as a Partner of KPMG Malaysia in 1990. He was later appointed as Partner-in-Charge of KPMG East Malaysia in 2007 and a member of the Executive Council of KPMG Malaysia in 2011 until his retirement from the Firm on 1 January 2014. Mr Chin currently sits on the Board of Naim Holdings Berhad and Perdana Petroleum Berhad as a Non-Independent Non-Executive Director.

Mr Chin Chee Kong has no conflict of interest with the Bank and has no family relationship with any other Director. He is a member of the Audit Committee, Board Risk Management Committee and Nomination & Remuneration Committee of the Bank.

DIRECTORS' INTEREST

None of the Directors holding office at 31 December 2017 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Bank as shown in Note 28 (c) to the financial statements) by reason of a contract made by the Bank with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

ISSUE OF SHARES AND DEBENTURES

There were no changes in the issued and paid-up capital of the Bank during the financial year. There were no debentures issued during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Bank during the financial year.

BANK RATINGS

The Bank has not been rated by any external agencies.

HOLDING CORPORATION

The Directors regard Industrial and Commercial Bank of China Limited, a corporation incorporated in China, as the holding corporation of the Bank.

INDEMNITY AND INSURANCE COSTS

During the financial year, the Bank has put in place a Directors and Officers Insurance scheme with a maximum sum insured and premium paid of RM10.00 million and RM29.27 thousand respectively for Directors and Officers of the Bank.

FINANCIAL PERFORMANCE DURING THE FINANCIAL YEAR

The Bank registered profit before tax (“PBT”) of RM103.99 million for the financial year 2017, a 122.0% growth from the previous year. Net interest income which contributed 59.8% to the Bank’s total operating income rose 69.1% or RM47.96 million to RM117.35 million in 2017 as a result of growth in interest-bearing assets and higher net interest margin earned when compared to the financial year 2016. Net fee income contributed 12.1% of the Bank’s total operating income. It rose 54.9% or RM8.40 million to RM23.69 million in 2017, underpinned by higher fees income received related to loans. Net trading income substantially increased by 112.2% or RM29.09 million to RM55.01 million in 2017 mainly due to higher volume of foreign exchange transactions.

Allowance for impairment on loans, advances and financing increased by RM17.90 million in 2017 mainly resulted by loans growth in 2017 while an allowance for impairment written-back was recorded in 2016. The Bank’s other operating expenses increased by 14.7% or RM9.97 million to RM77.86 million as at 31 December 2017, largely attributable to higher personnel costs.

Gross loans, advances and financing registered a significant growth of RM577.96 million or 21.9% in 2017 to RM3.21 billion as compared to RM2.64 billion recorded in 2016. Financial investments available-for-sale and held-to-maturity grew by RM202.15 million and RM32.35 million respectively at the end of 2017.

The Bank’s total liabilities increased by RM726.42 million or 23.3% to RM3.84 billion as at 31 December 2017. The increase was mainly due to higher growth recorded for deposits and placements of banks and other financial institutions by 253.4%.

In 2018, the Bank will continue to improve and strengthen its core business. To sustain its business growth, the Bank will continue enhancing cost efficiency and improve productivity.

OUTLOOK FOR 2018

Consistent with the global growth momentum in 2017, the World Bank and International Monetary Fund forecasted the global economy is to grow 3.1% and 3.9% respectively in 2018. The acceleration in global GDP growth from 2016 to 2017 was supported by favorable financing conditions, generally accommodative policies, firming commodity prices, rising confidence and improved business sentiment across both advanced economies as well as emerging market and developing economies (EMDEs). On the upside, the global growth is expected to sustain in the near term as the pickup in activity and easier financial conditions reinforce each other. The current cyclical upswing provides ideal opportunities for structural reforms to boost potential output and making growth more inclusive. On the downside, rich asset valuations and very compressed term premiums raise the possibility of a financial market correction, which could dampen growth and confidence. Therefore, in an environment of financial market optimism, ensuring financial resilience is imperative.

As a trade-oriented nation, Malaysia has fairly diversified its economy with service sector accounted for 54.4% and manufacturing sector contributed 23% of the nation’s GDP in 2017. The GDP grew 5.9% for the full year of 2017, which was slightly above the official predictions and market expectations. In year 2018, it is expected that the growth momentum would continue to be driven by domestic demand with support from net exports. While the external factors, such as pace of recovery in the major export markets, the sustainability of the commodity prices, currencies and capital flows, would remain as the key factors in driving the growth momentum of Malaysia, the measures to be taken domestically are crucial in capitalizing the growth prospects as well. Among the essential domestic measures include prioritizing the implementation of the strategic initiatives under the Government’s Economic Transformation Program (including new drivers for e-commerce and technology related sectors) that could effectively diversify the economy with value-added multiplier effects, gradual rationalization of macro-financial risks posed by system-wide leverage and inflationary pressures, continuous fiscal consolidation as well as promoting regional collaborations in trade and investment.

OUTLOOK FOR 2018 (continued)

On another note, the banking system in Malaysia remained sound as evidenced by its healthy asset quality and strong capitalization. Stiffer competitions for acquiring customer deposits and quality lending assets are, however, expected to put pressure on the banking system's net interest margin. Additionally, given the expectation of slower loan growth and a potential increase in credit costs, banks' earnings are projected to soften this year.

Factors like the continuing strengthening of the global economy, One Belt One Road initiatives, internationalization of Renminbi and the continuing opening up of China's capital market have provided great business opportunity to the Bank. However, potential uncertainties still lies within Malaysia's macroeconomic environment as a result of the upcoming 14th General Election and the trade war between United States of America and China on imposition of tariffs on goods by both countries.

The Bank will remain prudent and continue to focus on its long term strategic objectives, with the view of playing greater role in providing banking service solutions that suit clients' evolving needs and promoting cross border trade and investment activities by capitalizing on the ICBC Group's established business network and service channels globally. Notwithstanding the challenging operating environment, the Bank will continue to uphold commitment to grow the profitability and manage the balance sheet in a sustainable manner.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("the Board") of the Bank recognises the importance of adopting good corporate governance in discharging its responsibilities for value creation and safeguarding interests of the shareholders and stakeholders while promoting high standard of integrity, transparency and accountability.

The Board endeavours to ensure that the Bank's internal processes and systems are in compliance with Bank Negara Malaysia's Policy Document on Corporate Governance ("BNM CG Policy") and other relevant best practices of corporate governance.

The Board of Directors**(a) Size and Composition of the Board**

The Board of the Bank is currently represented by 5 Members, comprising the Non-Independent Non-Executive Chairman, the Managing Director and 3 Independent Non-Executive Directors. The Board is constituted of individuals of high calibre with relevant experience and skills. A brief profile of each member of the Board is presented on pages 2 and 3 of the Directors' reports.

The current Independent Directors of the Bank account for 60% of the Board, which is in compliance with the requirement of having a majority of independent director on the Board at all times as set out in BNM CG Policy. The presence of the Independent Directors ensures an effective check and balance on the functioning of the Board. The independent Directors of the Bank are not involved in the day-to-day management of the Bank, nor do they participate in any of the business dealings. This ensures they remain free of any conflict of interest to undertake their roles and responsibilities as independent director effectively.

The independence of the Independent Directors is reviewed annually and benchmarked against regulatory provisions. Independent Directors are required to confirm their compliance with the criteria and definition of 'Independent Director' as stipulated in the BNM CG Policy.

CORPORATE GOVERNANCE STATEMENT *(continued)***The Board of Directors** *(continued)*

(b) Duties and Responsibilities of the Board

The Board governs the businesses and affairs of the Bank with the assistance of the Senior Management of the Bank. The Directors, collectively and individually, are aware of their responsibilities to shareholder/stakeholders and the manner in which the affairs of the Bank are managed. They discharge their roles and duties with integrity, honesty and professionalism within the ambit of law and also under such powers as conferred by the Articles of Association of the Bank and shareholder's mandate which is renewed on a yearly basis.

(i) Business Strategy, Direction and Operation

The Board assumes an active role and takes full responsibilities for formulation of key strategies, business plans, financial objectives, risk appetites, policies and major capital and operating budgets of the Bank. It reviews the Bank's business strategies and governs the risk management, compliance and internal controls as well as human resource management through the delegation of certain decision making and/or oversight responsibilities to various Board Committees of the Bank, namely Board Risk Management Committee ("BRMC"), Audit Committee ("AC") and Nomination and Remuneration Committee ("NRC") of the Bank.

The Chief Executive Officer/Managing Director ("CEO/MD") who is assisted by a group of Senior Management personnel, assumes the overall responsibilities of executing the Bank's strategies and plans in line with the Board's direction, overseeing the operations and drives the Bank's businesses and performance towards achieving the Bank's vision and goals.

At the Board meetings, the Board reviews the management reports on business performance of the Bank, reviews financial results for each reporting period compared to the previous quarter and year-on-year as well as against the budget for the year, reviews the strategic/business plans, risk management reports, compliance reports and actions taken to address shortcomings as well as initiatives taken by the Bank that are essential to the Bank's business and operations. As part of the integrated risk management initiatives and compliance, the Board is informed of the decisions and salient issues deliberated by the AC, BRMC and NRC, where deemed appropriate.

(ii) Risk Management

The Board embraces risk management as a foundation of the Bank's business operations and employs a risk management framework which sets out the Bank's risk principles and strategies to drive a strong risk culture and ensure consistent risk management practices across the Bank.

An on-going process has been established to identify, evaluate and manage the significant risks faced by the Bank, which includes enhancing the risk management and internal control systems from time to time in response to the changes to the business environment or regulatory guidelines. Management assists the Board in the implementation of the Bank's policies, procedures and limits within the Board's approved risk appetite by identifying the possible risks and ensuring suitable internal control systems are in place to monitor and mitigate these risks.

In ensuring the effectiveness of risk assessment and control, the BRMC has been entrusted to provide oversight and governance of risks for the Bank. The BRMC has discharged its functions to support the Board in ensuring the Bank is adequately capitalised to support risks undertaken and to comply with the regulatory requirements. Risk management reports and key risk and internal control issues are regularly presented to the Board for attention and deliberation.

CORPORATE GOVERNANCE STATEMENT *(continued)*

(b) Duties and Responsibilities of the Board *(continued)*

(iii) Talent Development and Performance Evaluation of Key Senior Officers

Talent development and succession planning are key focuses of the Board in ensuring a high performance workforce which contributes to the Bank's sustainability and competitiveness. The NRC have been entrusted by the Board to provide high level of oversight and direction on human resource matters.

The NRC supports the Board in reviewing and assessing the appointment of Directors, Board Committee members and key Senior Management officers of the Bank. During the year, the NRC has reviewed the re-appointment of Chairman, the appointment of a new Independent Director, the appointment of CEO as MD of the Bank as well as the renewal of employment services of expatriates in the Senior Management/senior officer positions of the Bank.

Human Resources related policies, procedures and guidelines have been established to facilitate the human capital management of the Bank.

(iv) Internal Control

The Board is responsible for ensuring the adequacy and integrity of the Bank's internal control system. With the support of the AC, Internal Audit and Legal & Compliance, the Board ensures that there is a process for reviewing the adequacy and effectiveness of the Bank's internal control system.

(v) Succession Plan

The Board is responsible to oversee the selection, appointment, performance, remuneration and succession plans of the CEO, other members of Senior Management and senior officers of the control functions of the Bank.

The Board has also adopted a charter which sets out among others, the mandate, roles and responsibilities, and key corporate governance practices/procedures of the Board and Board Committees. The Board Charter will be reviewed as and when deemed appropriate to ensure that it is up to date and consistent with the Board's objectives and responsibilities as well as relevant applicable regulatory and statutory requirements. A copy of the Board Charter is available on the Bank's corporate website (www.icbcm.com) for reference.

The Bank has a Code of Ethics for Directors that sets out the standards required to be observed by the Directors in order to promote and maintain the highest ethical standards at all times. The Code of Ethics for Directors will be revised as and when deemed appropriate so as to maintain its relevancy in line with the business operations of the Bank and the relevant regulatory requirements.

CORPORATE GOVERNANCE STATEMENT *(continued)***Meetings and Supply of Information to the Board**

An annual meeting schedule for Board and Board Committees' meetings are circulated to the Directors for their convenience before the end of the current financial year to enable the Directors to plan ahead and block their next year meeting schedules.

The Board meets on a regular basis with at least 6 times a year. Additional meetings, when required, will be held to deliberate on any urgent proposals or matters. At each Board meeting, the Board is, among others, informed of decisions, salient issues and views raised at the Board Committee meetings by the Chairmen of the respective Committees. Minutes of the respective Board Committee meetings are also tabled for the Board's information. All Board meetings' proceedings are properly recorded and the minutes thereof are tabled at the next meeting for confirmation of the Board.

The Chairman of the Bank manages the affairs of the Board with the objective to ensure smooth and effective functioning of the Board in performing its duties and responsibilities. The Chairman ensures all Members of the Board have been given opportunities to express their views, opinions and ideas to facilitate a proper decision making process by the Board.

To facilitate a meaningful deliberation, the proceedings of the Board and Board Committees' meetings are conducted in accordance with a structured agenda. The agenda together with the management reports and proposal papers are furnished to the Directors between 5 to 10 days before the Board and Board Committees meetings. There is always an avenue for Non-Executive Directors to seek clarifications or obtain details concerning the proposal papers/reports from the Management or the Company Secretary. The Non-Executive Directors may seek independent professional advice, at the Bank's expense, should the need arise in discharging their duties. Senior Management or Heads of Department are invited to attend the Board meetings to report to the Board on matters relating to their respective areas of responsibility and also to brief and provide details to the Directors on recommendations or reports submitted to the Board. In any case and depending on the urgency of the matters, decision of the Board may be taken by way of Directors' Circular Resolution in accordance with the Articles of Association of the Bank.

The Directors have a duty to declare immediately to the Board should they be interested in any proposal being considered or transaction to be entered into directly or indirectly by the Bank. An interested director is required to abstain from deliberations and decision of the Board.

CORPORATE GOVERNANCE STATEMENT *(continued)***The Board of Directors** *(continued)***Meetings and Supply of Information to the Board** *(continued)*

All Directors holding office during the financial year ended 31 December 2017 have allocated sufficient time to the Bank to discharge their duties and responsibilities effectively and complied with the required minimum Board meetings attendance of 75% under BNM CG Policy and internal policy of the Bank, as reflected below:

Directors	Number of Board Meeting Attended	Percentage of Attendance (%)
Chang Zhenwang (Chairman) Non-Independent Non-Executive Director	6/6	100
Dato' Leong Khee Seong Independent Non-Executive Director	6/6	100
Ong Ah Tin @ Ong Chee Kwee Independent Non-Executive Director	6/6	100
Lan Li ⁽¹⁾ Non-Independent Non-Executive Director	5/5	100
Hong Guilu ⁽²⁾ Non-Independent Non-Executive Director	4/4	100
Chin Chee Kong ⁽³⁾ Independent Non-Executive Director	2/2	100
Wang Qiang ⁽⁴⁾ Managing Director	1/1	100

Note: ⁽¹⁾ Resigned on 22 November 2017
⁽²⁾ Resigned on 10 August 2017
⁽³⁾ Appointed on 10 August 2017
⁽⁴⁾ Appointed on 22 November 2017

Training and Development of Directors

The Bank has put in place a Directors' Induction Programme for newly appointed Directors to familiarise themselves with the Bank's business operations. Mr Chin Chee Kong who was appointed as Independent Director of the Bank on 10 August 2017 had attended the Induction Programme organised by the Bank which covered the overview of the Bank's strategies, business operations, financial performance and relevant internal control functions.

The Directors are provided with opportunities to participate in relevant training programmes on an ongoing basis in areas relating to the banking and financial industry to keep themselves abreast with the latest developments in the marketplace. This includes the Financial Institutions Directors' Education (FIDE) Core Programme which promotes high-impact Boards by strengthening Board competencies in dealing with corporate governance, risk management and strategic issues faced by the financial services industry.

CORPORATE GOVERNANCE STATEMENT *(continued)***Training and Development of Directors** *(continued)*

The training programmes, conferences and forums attended by the Directors of the Bank during the financial year 2017, were as follows:

- FIDE Core Programme
- BNM: Compliance Conference 2017
- BNM: Industry Seminar on Recovery and Resolution Planning in Malaysia
- In-house: Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) Training
- BNM & World Bank Group: Global Symposium on Development Financial Institutions
- Securities Commission: ASEAN Capital Market Conference

Appointment and Re-election of Directors**(a) Appointment/Re-Appointment of Directors**

Pursuant to the provisions of the Financial Services Act 2013 and the BNM CG Policy, the appointment of a new Director is subject to the prior approval of BNM and will be for a specified term of appointment. The NRC considers and recommends to the Board, the nominee(s) for directorship and Board Committee membership upon assessing the skill, knowledge and experience as well as fitness and propriety of the nominee(s) to act as Director/Board Committee member in accordance with the Bank's Fit and Proper Policy.

For the re-appointment of existing Directors, the NRC refers to the results of the individual assessments conducted via the Board Performance Evaluation exercise in addition to their normal interactions with the Directors. The NRC also assesses the Directors based on their performance and contribution to the Board and Board Committees, their independence of view in respect of decision making, where deemed appropriate and time commitment. Once approved by the Board, the application for the re-appointment of Directors is submitted to BNM for its consideration.

(b) Re-election of Directors

The Articles of Association of the Bank state that at every annual general meeting, one-third of the Directors for the time being or the number nearest to one-third, and those Directors newly appointed subsequent to the preceding annual general meeting, shall retire from office and shall be eligible for re-election.

(c) Board Performance Evaluation

The Bank has undertaken the Board Performance Evaluation exercise on the Board and Board Committees to assess their effectiveness and that of individual Directors on yearly basis. Implemented in 2011, the Board Performance Evaluation is designed to identify the strengths and weaknesses to improve the Board's overall effectiveness and forms part of the NRC's evaluation for the re-appointment of Directors.

The evaluation is made up of self and peer assessment conducted through a customised questionnaire. The assessment results will be tabled at the NRC and the Board for review and consideration, respectively. Each Director is provided with the individual results on each area of assessment for private information and improvement.

CORPORATE GOVERNANCE STATEMENT *(continued)***Board Committees Established by the Board**

The Board has established a number of Board Committees in which the respective compositions are in line with BNM CG Policy. Each Board Committee operates within its terms of reference, which clearly define its functions and authority. The aforesaid terms of reference are reviewed from time to time to ensure that they remain relevant and are up-to-date.

Audit Committee

The AC currently comprises entirely Independent Non-Executive Directors. The objective of the AC is primarily to assist the Board in providing independent oversight on the Bank's financial reporting, internal control system, risk management function and governance processes.

The AC is assisted by internal and external auditors, where applicable, in the review of the integrity and reliability of the Bank's financial statements on quarterly and yearly basis, prior to the recommendation of the same to the Board for final approval. The AC also reviews the internal audit reports submitted by Internal Audit Department ("IAD") and further evaluates the adequacy and effectiveness of the Bank's internal control system.

The AC undertakes an assessment of the suitability and independence of the external auditors based on qualifying criteria for the appointment of auditors and terms of engagements in accordance with the regulatory requirements. Having reviewed and satisfied with their performance, the AC will recommend the re-appointment of the external auditors to the Board, upon which the shareholder's approval will be sought at the Annual General Meeting. The AC meets twice a year with the external auditors, without the presence of the Management of the Bank to discuss any key issues and/or areas, if any, that require the attention of the AC and the Board.

The attendance of Members at the AC Meetings held in 2017 is reflected below:

Members of AC	Number of Board Meeting Attended	Percentage of Attendance (%)
Dato' Leong Khee Seong (Chairman) Independent Non-Executive Director	5/5	100
Ong Ah Tin @ Ong Chee Kwee Independent Non-Executive Director	5/5	100
Lan Li ⁽¹⁾ Non-Independent Non-Executive Director	5/5	100
Chin Chee Kong ⁽²⁾ Independent Non-Executive Director	1/1	100

Note: ⁽¹⁾ Ceased as a Member of AC on 22 November 2017 following her resignation as Non-Independent Non-Executive Director on even date

⁽²⁾ Appointed as a Member of AC on 10 August 2017

CORPORATE GOVERNANCE STATEMENT *(continued)***Board Committees Established by the Board** *(continued)***Audit Committee** *(continued)*

The salient terms of reference of the AC are as follows:

- to review the comprehensiveness and robustness of the Bank's internal controls and risk management framework;
- to oversee the functions of IAD and approve its audit scope, procedures and frequency;
- to review the audit reports and ensure that senior management takes necessary corrective actions in a timely manner to address control weakness, non-compliance with laws, regulatory requirements, policies and other issues identified by the internal audit and other control functions;
- to appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Chief Internal Auditor;
- to review and discuss with the external auditors and Management on the fairness of presentation and transparent reporting of the financial statements, conformity with appropriate accounting standards and timely publication of the financial statements;
- to maintain regular, timely, open and honest communication with the external auditors who are required to report to AC in confidence on significant matters;
- to make recommendations to the Board on the appointment, re-appointment and removal; as well as the remuneration of the external auditors;
- to monitor and assess the independence of the external auditors including by approving the provision of non-audit services by the external auditors;
- to review related party transactions and keep the Board informed of such transactions; and
- to ensure that independent audits are conducted to assess the effectiveness of the policies, procedures and controls for Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT") measures within the Bank and that the measures are in line with the latest developments and changes of the relevant AML/CFT requirements.

Internal Audit Function

The internal audit function is undertaken by the IAD who reports functionally to the AC. The IAD's role is to assist the AC in discharging its duties and responsibilities by independently reviewing and reporting on the adequacy and effectiveness of the Bank's risk management, internal control system and governance processes.

IAD adopts a risk-based approach, driven by a systematic and comprehensive risk assessment model in managing the internal audit activities. The fundamental framework for the internal audit function is based on the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") framework, a well-recognised risk and control framework for the evaluation of the design and operating effectiveness of internal control.

CORPORATE GOVERNANCE STATEMENT *(continued)***Board Committees Established by the Board** *(continued)***Audit Committee** *(continued)*Internal Audit Function *(continued)*

Annually, IAD performs a detailed risk assessment of all departments, establishments and functions of the Bank, taking into account of the applicable material risks. Based on the results of the risk assessment, IAD then develops a detailed audit plan which outlines the scope of IAD's activities for the year. The annual audit plan is approved by the AC.

During the financial year, IAD has conducted audits to examine and assess the adequacy, effectiveness and efficiency of risk management functions and internal control system as well as to review the compliance with the established policies, procedures, guidelines and regulatory requirements. The audit reports, which provide the results of audits conducted including the remedial actions for rectifying audit issues, are submitted to the AC for review. There are also follow-up and escalation procedures in place for the tracking of all outstanding audit issues to full resolution.

Board Risk Management Committee

The BRMC is entrusted by the Board to undertake the responsibilities to provide oversight and governance of risks for the Bank. The Committee oversees the risk framework, reviews the risk management activities and policies formulated by the Management for approval by the Board.

The Committee currently comprises entirely Independent Non-Executive Directors. The attendance of Members at the BRMC Meetings held in 2017 is reflected below:

Members of BRMC	Number of BRMC Meeting Attended	Percentage of Attendance (%)
Ong Ah Tin @ Ong Chee Kwee (Chairman) Independent Non-Executive Director	6/6	100
Dato' Leong Khee Seong Independent Non-Executive Director	6/6	100
Hong Guilu ⁽¹⁾ Non-Independent Non-Executive Director	4/4	100
Chin Chee Kong ⁽²⁾ Independent Non-Executive Director	2/2	100

Note: ⁽¹⁾ Ceased as a Member of BRMC on 10 August 2017 following his resignation as Non-Independent Non-Executive Director on even date

⁽²⁾ Appointed as a Member of BRMC on 10 August 2017

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees Established by the Board *(continued)*

Board Risk Management Committee *(continued)*

The salient terms of reference of the BRMC are as follows:

- to review and recommend the risk management strategies, risk appetite and policies for Board's approval;
- to review and assess the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively; and obtaining assurance that they are being adhered to at all times;
- to evaluate and obtain assurance that the infrastructure, resources and systems are in place for overall effective management of risk and compliance functions;
- to review and deliberate Management's periodic reports on risk exposure, risk portfolio composition and risk management activities and issues and matters relating to compliance;
- to evaluate and provide input on such strategies and/or policies to suit local conditions and make appropriate recommendations to the Board on the execution or compliance of such strategies and/or policies where risk strategies and policies are driven by the parent bank;
- to provide oversight for establishing AML/CFT policies and effective standards, overall AML/CFT risk profiles and measures undertaken by the Bank;
- to review and ensure a forward looking and dynamic capital management process that incorporates changes in the Bank's strategic business direction, risk profiles, operating environment and other factors that could materially affect the Bank's capital adequacy;
- to review and approve the Bank's overall stress testing methodology, which should be forward looking with defined scenario(s) covering various material risks and business areas. The result of the stress tests should facilitate the development of mitigation or contingency plans for the stressed scenario(s);
- to review and deliberate on the proposal of new products and services that require approval by the Board as per BNM's guidelines based on the risk appetite set by the Board; and
- to support the Board in examining whether incentives provided under the remuneration system taking into consideration of risks, capital, liquidity and the likelihood and timing of earnings.

The details pertaining to the Bank's financial risk management framework are set out on pages 67 to 79 of these financial statements.

CORPORATE GOVERNANCE STATEMENT *(continued)***Board Committees Established by the Board** *(continued)***Nomination and Remuneration Committee (NRC)**

During the financial year 2017, the previous Nominating Committee and Remuneration Committee were merged on 27 April 2017 to form the NRC. The NRC currently comprises entirely Independent Non-Executive Directors.

The attendance of Members at the NC, RC and NRC Meetings held in 2017 are reflected below:

Members	Pre-Combination		Post-Combination	
	(Number of Meeting Attended)		Number of NRC Meeting Attended	Percentage of Attendance (%)
	NC	RC		
Dato' Leong Khee Seong (Chairman of NC and NRC) Independent Non-Executive Director	2/2	1/1	3/3	100
Ong Ah Tin @ Ong Chee Kwee (Chairman of RC) Independent Non-Executive Director	2/2	1/1	3/3	100
Chin Chee Kong ⁽¹⁾ Independent Non-Executive Director	N/A	N/A	2/2	100
Hong Guilu ⁽²⁾ Non-Independent Non-Executive Director	2/2	1/1	1/1	100
Lan Li ⁽³⁾ Non-Independent Non-Executive Director	N/A	N/A	N/A	N/A

Note: ⁽¹⁾ Appointed as a Member of NRC on 22 November 2017

⁽²⁾ Ceased as a Member of NRC on 10 August 2017

⁽³⁾ Appointed as a Member of NRC on 10 August 2017 and subsequently ceased as a Member of NRC on 22 November 2017 following her resignation as Non-Independent Non-Executive Director on even date

The salient terms of reference of the NRC are set out below:

- establish a documented procedure for the appointment of directors, Board Committee members, senior management and senior officers of control functions;
- establish the minimum requirements including the experience, qualification and other core competencies of a director and CEO of the Bank for recommendation to the Board for approval;
- assess and recommend the nominees for directorship, Board Committee membership and CEO of the Bank. This would include assessing directors and CEO for re-appointment upon the expiry of their respective terms of appointment as approved by BNM;

CORPORATE GOVERNANCE STATEMENT *(continued)*

Board Committees Established by the Board *(continued)*

Nomination and Remuneration Committee (NRC) *(continued)*

- recommend for consideration of the Board, the removal of a director or CEO or other senior management or senior officers of control functions if he/she is ineffective, errant or negligent in discharging his/her responsibilities;
- establish and recommend for approval by the Board, a mechanism to assess on annual basis, the effectiveness of the Board and Board Committees, contribution of each director, performance of CEO, senior management or senior officers of control functions;
- assess annually the independence of independent directors and review the suitability of independent directors to remain on the board and board committees, when they have reached the maximum tenure as determined by the Board;
- ensure directors receive appropriate induction and continuous training programme(s) to keep abreast with the latest relevant developments;
- oversee the succession planning for senior management and senior officers of control functions of the Bank, as deemed appropriate;
- assess and ensure that directors and senior management are not disqualified under Section 59 of the Financial Services Act 2013 and comply with the fit and proper criteria in accordance with the Bank's Fit and Proper Policy;
- review and recommend a formal and transparent procedure for developing remuneration policy for directors, CEO, senior management and senior officers of control functions of the Bank to ensure that compensation stays competitive and consistent with the Company's business and risk strategies, corporate value and long-term interests of the Bank; and
- provide oversight and direction on human resource policy matters.

The Bank's Independent Non-Executive Directors receive Directors' fees and meeting attendance allowances for Board/Board Committee meetings attended. The nature and amount of each major element of the remuneration of the Executive Director and Independent Non-Executive Directors for financial year ended 31 December 2017 are disclosed in Note 28(c) to the financial statements.

CORPORATE GOVERNANCE STATEMENT *(continued)***Board Committees Established by the Board** *(continued)***Nomination and Remuneration Committee (NRC)** *(continued)***Remuneration Policy**

The Bank has established a Remuneration Policy which provides a framework that can be implemented and is replicable year after year. This is to ensure all employees are compensated fairly, transparently and with a proper governance process across all levels of jobs.

The Bank's compensation approach is performance-oriented, market-aware and aligned with business strategy and stakeholders' interests. To ensure the competitiveness and effectiveness of remuneration as well as transparency and internal equity, the principles of sustainable conduct and performance define the key pillars of the remuneration policy:

- (i) Maintaining market competitiveness of local market
- (ii) Adopting a balanced remuneration structure that comprises both fixed and variable compensation elements
- (iii) Ensuring a direct link between pay and performance
- (iv) Adopting a remuneration practice that facilitates the transition of an employee's career progression by segmentation of job clusters and job grade
- (v) Consistency with business strategy
- (vi) Consistency with prudent risk management

The remuneration of the Bank is made up of the following components:

- (i) Fixed Remuneration
- (ii) Allowance and Benefits
- (iii) Variable Remuneration

The Remuneration Policy is currently being reviewed in line with BNM CG Policy.

The fixed and variable remuneration of CEO and other Senior Management of the Bank for financial year ended 31 December 2017 is tabulated below:

Chief Executive Officer	Amount (RM'000)	Deferred (RM'000)
Fixed Remuneration		
* Cash-based	1,255	-
* Others	-	-
Variable Remuneration		
* Cash-based	29	-
* Others	-	-

CORPORATE GOVERNANCE STATEMENT *(continued)***Board Committees Established by the Board** *(continued)***Nomination and Remuneration Committee (NRC)** *(continued)***Remuneration Policy** *(continued)*

Senior Management	Amount (RM'000)	Deferred (RM'000)
Fixed Remuneration		
* Cash-based	2,779	-
* Others	-	-
Variable Remuneration		
* Cash-based	891	-
* Others	-	-

Accountability and audit**Financial reporting**

It is the Board's commitment to present a balanced and meaningful assessment of the Bank's financial performance and prospects at the end of the financial year, primarily through the annual financial statements to BNM. The Board is assisted by the AC to oversee the Bank's financial reporting process and the quality of its financial reporting.

Directors' responsibility statement in respect of the preparation of the audited financial statements

The Board is responsible for ensuring that the financial statements give a true and fair view of the state of affairs of the Bank as at the end of the accounting period and of its financial performance and cash flows for the year then ended. In preparing the financial statements, the Directors have ensured that the preparation and fair presentation of these financial statements are in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia in all material respects and other legal requirements.

Relationship with the Auditors

Key features underlying the relationship of the AC with the external auditors are included in the AC's terms of reference.

OTHER STATUTORY INFORMATION

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision has been made for doubtful debts; and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Bank inadequate to any substantial extent; or
- ii) that would render the value attributed to the current assets in the financial statements of the Bank misleading; or
- iii) which has arisen which render adherence to the existing method of valuation of assets and liabilities of the Bank misleading or inappropriate; or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Bank misleading.

At the date of this report, there does not exist:

- i) any charge on the assets of the Bank that has arisen since the end of the financial year and which secures the liabilities of any other person; or
- ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year.

No contingent liability or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 December 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, KPMG PLT have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 24 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors.

.....
Ong Ah Tin
Director

.....
Dato' Leong Khee Seong
Director

Kuala Lumpur, Malaysia
Date: 4 June 2018

**STATEMENT BY DIRECTORS PURSUANT TO
Section 251(2) of the Companies Act 2016**

We, Ong Ah Tin and Dato' Leong Khee Seong being two of the Directors of Industrial and Commercial Bank of China (Malaysia) Berhad, do hereby state on behalf of the Directors that, in our opinion, the financial statements set out on pages 28 to 79 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2017 and of its financial performance and cash flows for the year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....
Ong Ah Tin
Director

.....
Dato' Leong Khee Seong
Director

Kuala Lumpur, Malaysia
Date: 4 June 2018

**STATUTORY DECLARATION PURSUANT TO
Section 251(1)(b) of the Companies Act 2016**

I, Wang Qiang, the Officer primarily responsible for the financial management of Industrial and Commercial Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 28 to 79 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named, Wang Qiang, (PP no. PE0550833), in Kuala Lumpur, Malaysia on 4 June 2018

.....
Wang Qiang

BEFORE ME:

.....

**Independent Auditors' Report to the Members of
Industrial and Commercial Bank of China (Malaysia) Berhad**

(Company No. 839839 M)

(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Industrial and Commercial Bank of China (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 28 to 79.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Bank in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

(Company No. 839839 M)

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Bank are responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Bank, the Directors are responsible for assessing the ability of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

(Company No. 839839 M)

Auditors' Responsibilities for the Audit of the Financial Statements (*continued*)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(Company No. 839839 M)

Other Matter

This report is made solely to the members of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Chin Shoon Chong
Approval Number: 02823/04/19 J
Chartered Accountant

Petaling Jaya, Malaysia

Date: 4 June 2018

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
ASSETS			
Cash and short-term funds	4	1,062,859	954,456
Deposits and placements with banks and other financial institutions	5	150,000	288,047
Financial investments available-for-sale	6	372,094	169,946
Financial investments held-to-maturity	7	32,349	-
Loans, advances and financing	8	3,185,671	2,620,187
Derivative financial assets	9	15,939	2,529
Other assets	10	11,175	7,278
Statutory deposits with Bank Negara Malaysia	11	20,378	10,580
Plant and equipment	12	9,691	4,523
Intangible asset	13	-	304
Deferred tax assets	14	6,048	5,835
TOTAL ASSETS		<u>4,866,204</u>	<u>4,063,685</u>
LIABILITIES			
Deposits from customers	15	2,839,525	2,782,198
Deposits and placements of banks and other financial institutions	16	906,980	256,640
Derivative financial liabilities	9	15,760	2,247
Other liabilities	17	65,132	69,888
Provision for taxation		13,074	3,080
TOTAL LIABILITIES		<u>3,840,471</u>	<u>3,114,053</u>
EQUITY			
Share capital	18	832,609	832,609
Reserves	19	193,124	117,023
EQUITY ATTRIBUTABLE TO OWNER OF THE BANK		<u>1,025,733</u>	<u>949,632</u>
TOTAL LIABILITIES AND EQUITY		<u>4,866,204</u>	<u>4,063,685</u>
COMMITMENTS AND CONTINGENCIES	30	<u>3,205,975</u>	<u>2,187,259</u>

The notes set out on pages 34 to 79 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)

(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
Interest income	20	167,266	111,710
Interest expense	20	(49,920)	(42,319)
Net interest income	20	117,346	69,391
Net fee income	21	23,685	15,290
Net trading income	22	55,014	25,923
Other operating income	23	281	723
Net operating income		196,326	111,327
Other operating expenses	24	(77,860)	(67,895)
Operating profit		118,466	43,432
(Allowance for)/Write back of impairment on loans, advances and financing	25	(14,475)	3,421
Profit before taxation		103,991	46,853
Tax expense	26	(28,160)	(13,211)
Profit for the year		75,831	33,642
Other comprehensive income, net of tax			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation reserve			
- Currency translation differences in respect of - foreign operations		253	-
Fair value reserve			
- Changes in fair value		22	(1,495)
- Amount transferred to profit or loss		-	2,600
- Deferred tax adjustment	14	(5)	(265)
		17	840
Total other comprehensive expense for the year		270	840
Total comprehensive income for the year		76,101	34,482
Basic earnings per ordinary share (sen):	27	9.11	8.11

The notes set out on pages 34 to 79 form an integral part of these financial statements.

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)

(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	←	Non-distributable	→	Distributable			
	Share Capital RM'000	Statutory Reserve RM'000	Foreign Currency Translation Reserve RM'000	Available- for-sale Reserve RM'000	Regulatory Reserve RM'000	Retained Earnings RM'000	Total Equity RM'000
At 1 January 2016	331,000	40,392	-	(1,413)	13,162	30,400	413,541
Total comprehensive income for the year							
Other comprehensive income, net of tax							
Fair value reserve							
- Changes in fair value	-	-	-	(1,495)	-	-	(1,495)
- Amount transferred to profit or loss	-	-	-	2,600	-	-	2,600
- Deferred tax adjustment	-	-	-	(265)	-	-	(265)
Total other comprehensive expense for the year	-	-	-	840	-	-	840
Profit for the year	-	-	-	-	-	33,642	33,642
Total comprehensive income for the year	-	-	-	840	-	33,642	34,482
Contributions by and distributions to owners of the Bank							
Issue of ordinary shares	501,609	-	-	-	-	-	501,609
Total transactions with owners of the Bank	501,609	-	-	-	-	-	501,609
Transfer to statutory reserve	-	16,821	-	-	-	(16,821)	-
Transfer to regulatory reserve	-	-	-	-	4,482	(4,482)	-
At 31 December 2016	832,609	57,213	-	(573)	17,644	42,739	949,632

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

	← Non-distributable →				Distributable		
	Share Capital RM'000	Statutory Reserve RM'000	Foreign Currency Translation Reserve RM'000	Available-for-sale Reserve RM'000	Regulatory Reserve RM'000	Retained Earnings RM'000	Total Equity RM'000
At 1 January 2017	832,609	57,213	-	(573)	17,644	42,739	949,632
Total comprehensive income for the year							
Other comprehensive income, net of tax							
Items that are or may be reclassified subsequently to profit or loss							
Foreign currency translation reserve	-	-	253	-	-	-	253
- Currency translation differences in respect of							
- foreign operations							
Fair value reserve							
- Changes in fair value	-	-	-	22	-	-	22
- Deferred tax adjustment	-	-	-	(5)	-	-	(5)
Total other comprehensive income for the year							
Profit for the year							
Total comprehensive income for the year							
Transfer to retained earnings	-	(57,213)	-	-	-	57,213	-
Transfer to regulatory reserve	-	-	-	-	-	-	-
At 31 December 2017	832,609	-	253	(556)	17,644	175,783	1,025,733
	Note 18	Note 19.1	Note 19.2	Note 19.3	Note 19.4	Note 19.5	

Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)

(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
Cash flows from operating activities			
Profit before taxation		103,991	46,853
Adjustments for:			
Depreciation of plant and equipment		2,223	2,128
Plant and equipment written off		184	-
Amortisation of intangible asset		304	520
Allowance for/(write back of) impairment on loans, advances and financing		14,475	(3,421)
Net unrealised losses arising from derivative trading		103	308
Transfer to foreign currency translation reserve		253	-
Gain on disposal of financial investments available-for-sale		(116)	(661)
Accretion of discounts net of amortisation of premiums on financial investments available-for-sale		213	(63)
Accretion of discounts net of amortisation of premiums on financial investments held-to-maturity		3	-
Operating profit before working capital changes		<u>121,633</u>	<u>45,664</u>
Changes in operating assets			
Deposits and placements with banks and other financial institutions		138,047	(285,733)
Loans, advances and financing		(579,959)	(88,378)
Other assets		(3,897)	(2,594)
Statutory deposits with Bank Negara Malaysia		(9,798)	11,880
Changes in operating liabilities			
Deposits from customers		57,327	(528,650)
Deposits and placements of banks and other financial institutions		650,340	(42,115)
Other liabilities		(4,756)	28,272
Cash from/(used in) operations		<u>368,937</u>	<u>(861,654)</u>
Income taxes paid		(18,384)	(14,997)
Net cash from/(used in) operating activities		<u>350,553</u>	<u>(876,651)</u>
Cash flows (used in)/from investing activities			
Purchase of plant and equipment		(7,575)	(2,776)
Net (purchase of)/proceeds from financial investments available-for-sale		(202,223)	34,451
Purchase of financial investments held-to-maturity		(32,352)	-
Net cash (used in)/from investing activities		<u>(242,150)</u>	<u>31,675</u>

(Company No. 839839 M)

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2017 (continued)**

	Note	2017 RM'000	2016 RM'000
Cash flows from financing activities			
Proceeds from issue of share capital		-	501,609
Net cash from financing activities		<u>-</u>	<u>501,609</u>
Net increase/(decrease) in cash and cash equivalents		108,403	(343,367)
Cash and cash equivalents at beginning of the financial year		<u>954,456</u>	<u>1,297,823</u>
Cash and cash equivalents at end of the financial year		<u><u>1,062,859</u></u>	<u><u>954,456</u></u>
Cash and cash equivalents comprise:			
Cash and short-term funds	4	<u><u>1,062,859</u></u>	<u><u>954,456</u></u>

The notes set out on pages 34 to 79 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2017**

1. General information

Industrial and Commercial Bank of China (Malaysia) Berhad is a public limited liability company incorporated and domiciled in Malaysia. The Bank is principally engaged in the provision of banking and other related financial services. The address of its registered office and principal place of business is as follows:

Level 10, Menara Maxis
Kuala Lumpur City Centre
50088 Kuala Lumpur.

The Directors regard Industrial and Commercial Bank of China Limited, a corporation incorporated in China, as the holding corporation of the Bank.

The financial statements were authorised for issue by the Board of Directors on 4 June 2018.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Bank:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

MFRS 9, *Financial Instruments (2014)*

MFRS 15, *Revenue from Contracts with Customers*

Clarifications to MFRS 15, *Revenue from Contracts with Customers*

IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*

Amendments to MFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions*

Amendments to MFRS 4, *Insurance Contracts - Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*

Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*

Amendments to MFRS 140, *Investment Property - Transfers of Investment Property*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

MFRS 16, *Leases*

IC Interpretation 23, *Uncertainty over Income Tax Treatments*

Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*

Amendments to MFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation*

Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*

Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*

2. Basis of preparation *(continued)*

(a) Statement of compliance *(continued)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019 (continued)

Amendments to MFRS 119, *Employee Benefits - Plan Amendment, Curtailment or Settlement*
 Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
 Amendments to MFRS 128, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures*

MFRSs effective for annual periods beginning on or after 1 January 2021

MFRS 17, *Insurance Contracts*

Amendments effective for annual periods beginning on or after a date yet to be confirmed

Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Bank plans to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning on 1 January 2018 those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018, except for Amendments to MFRS 1, Amendments to MFRS 2, Amendments to MFRS 4, Amendments to MFRS 128 and Amendments to MFRS 140 as they are not applicable to the Bank.
- from the annual period beginning on 1 January 2019 those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019, except for Amendments to MFRS 3, Amendments to MFRS 11 and Amendments to MFRS 128 as they are not applicable to the Bank.

The Bank does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Bank.

The initial applications of the accounting standards, amendments and interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Bank, except as mentioned below:

MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The adoption of MFRS 15 is not expected to have any material impact on the financial statements of the Bank as revenue other than interest income of the Bank are already recognised in accordance with the principles of MFRS 15.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

In implementing MFRS 9, the Bank has set up a MFRS 9 Project Team which is assisted by external consultants. The Bank had completed a gap assessment and developed MFRS 9 compliant ECL models for applicable credit exposures as well as incorporated the model in its information systems. Independent validation has been on-going to ensure the MFRS 9 models are fit for purpose and comply with the requirements of MFRS 9.

In respect of impairment of financial assets, MFRS 9 replaces the “incurred loss” model in MFRS 139 with an “expected credit loss” (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments.

The three-stage approach which reflects the change in credit quality of the financial instrument since initial recognition is as follows:

i) Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within next 12 months will be recognised.

ii) Stage 2: Lifetime ECL - non-credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but that are non-credit impaired, a lifetime ECL will be recognised.

iii) Stage 3: Lifetime ECL - credit impaired

A financial asset is assessed as credit impaired when one or more events that have detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that are credit impaired, a lifetime ECL will be recognised.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

The recognition and measurement of impairment under MFRS 9 will be more forward-looking and will result in earlier recognition of credit losses as compared to MFRS 139.

Hence, the total ECL allowance computed under MFRS 9 is expected to be higher than the total allowance for impairment on loans, advances and financing under MFRS 139 as more forward looking approach is adopted as well as more financial assets (MFRS 9 includes loan commitments and financial guarantee contracts) will be assessed for impairment and allowance for impairment will be made at least based on 12 month ECL. Upon the initial adoption of MFRS 9, a negative adjustment will be made to opening retained earnings, which will decrease the equity and net assets of the Bank. As certain bases and assumptions are still being refined, the quantitative impact to the overall financial statements has not been finalised at this juncture. However, the impact to the capital ratios of the Bank is not expected to be significant on the basis that regulatory reserves would be allowed to mitigate the higher impairment allowance.

2. Basis of preparation (continued)**(a) Statement of compliance (continued)****MFRS 16, Leases**

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to classify a lease as finance or operating lease.

The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 16.

(b) Basis of measurement

The financial statements of the Bank have been prepared on the historical cost basis, except for financial investments available-for-sale and derivative financial instruments as disclosed in the notes to the financial statements.

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial information and financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 33 - Fair values of financial assets and financial liabilities.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of reporting period except for those that are measured at fair value which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of the foreign operations are translated to RM at average exchange rates for the period.

All resulting exchange differences are recognised in other comprehensive income and accumulated in the Foreign Currency Translation Reserve ("FCTR") in equity.

When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR in equity.

(b) Interest recognition

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

(c) Fees recognition

Loan arrangement fees which are material are recognised as income when all conditions precedent are fulfilled. Guarantee fees and commitment fees which are material are recognised as income based on time apportionment.

Other fee income on services and facilities extended to customers are recognised as the related services are performed.

Other fee expenses relating mainly to transaction and service fees, are expensed off as the services are received.

3. Significant accounting policies (*continued*)

(d) Operating lease payments

Leases, where the Bank does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised in the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(e) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(f) Financial instruments

i) Initial recognition and measurement

The Bank initially recognises loans and advances, deposits and debt securities issued on the date they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instruments.

A financial asset or financial liability is measured initially at its fair value plus, for a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3. Significant accounting policies (continued)**(f) Financial instruments (continued)***ii) Derecognition*

Financial assets are derecognised when the contractual right to receive cash flows from the assets has expired; or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- the Bank has neither retained nor transferred substantially all the risks and rewards of ownership, but has not retained control of the assets.

On derecognition of a financial asset, the difference between the carrying amount and the sum of consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

Financial liabilities are derecognised when the Bank's contractual obligations are discharged, cancelled, or expire.

On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

iii) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realised the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the MFRSs.

(g) Cash and cash equivalents

Cash and cash equivalents consist of notes and coins on hand, unrestricted balances held with BNM and highly liquid financial assets maturing within one month, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

(h) Derivative financial instruments

Derivatives are recognised at fair value in the statement of financial position. Gains and losses (realised and unrealised) arising from changes in the fair value are recognised in profit or loss.

(i) Forward Foreign Exchange Contracts

Forward contracts are valued at the prevailing forward rates of exchange at the reporting date. The resultant unrealised gains and losses are recognised in profit or loss.

(ii) Currency Swaps

The Bank acts as an intermediary for counterparties who wish to swap their foreign currency obligations. The resultant realised and unrealised gains and losses are recognised in profit or loss.

3. Significant accounting policies (*continued*)

(i) Financial investments

Available-for-sale

Available-for-sale investments are non-derivative financial assets that are not classified as held-for-trading or held-to-maturity investments; and are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income as 'Fair value reserve' until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss as 'Net gains/losses on disposal of financial investments available-for-sale'.

Investment in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Interest income earned is recognised on available-for-sale debt securities using the effective interest method, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest rates.

An assessment is made at each reporting date as to whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or 'events') has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

An impairment loss is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(j) Loans, advances and financing

Loans, advances and financing are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term.

The loans, advances and financing are carried at their outstanding unpaid principal and interest balances, net of individually and collectively assessed impairment allowances. The carrying amounts of the Bank's loans, advances and financing are reviewed at each reporting date to determine whether there is any objective evidence of impairment. If such evidence exists, the recoverable amount of the loans, advances and financing is estimated.

3. Significant accounting policies (*continued*)

(k) Impairment of loans, advances and financing

A collective impairment assessment is performed on “collective basis” on the Bank’s loan portfolio using statistical techniques with the necessary model risk adjustments to the credit grades and probability of defaults of the respective credit grade bands of the loans in order to guard against the risk of judgement error in the credit grading process. Although the credit grading process would involve qualitative assessment which is subject to judgement error, the loans within the same credit grade band generally share the similar credit risk characteristics for collective assessment. Given the lack of historical loss experience, relevant market data will be taken for consideration to derive the model risk adjustment.

In the case of individual assessment, a loan is deemed as impaired if there is objective evidence of impairment which is triggered by certain events. In general, loans that are not repaid on time as they come due, be it the principal or interest, will be monitored closely as the likelihood of impairment from these past due loans is expected to be higher. Individual impairment allowances are made for loans, advances and financing which have been individually reviewed and specifically identified as impaired. Individual impairment allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the carrying value of the loans, advances and financing (outstanding amount of loans, advances and financing, net of individual impairment allowance). The expected cash flows are based on projections of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

Impaired loans, advances and financing are measured at their estimated recoverable amount based on the discounted cash flow methodology. Loans, advances and financing (and related allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, advances and financing, when the proceeds from the realisation of security have been received.

(l) Plant and equipment

Recognition and measurement

All purchases above RM1,000 are capitalised. Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of plant or equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Subsequent costs

The cost of replacing a component of an item of plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

3. Significant accounting policies (continued)

(l) Plant and equipment (continued)

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The plant and equipment are depreciated commencing from the month subsequent to the month of addition, and depreciation is accounted for up to the month of disposal at the following annual rates:

	<i>Depreciation rate per annum (%)</i>
Electronic equipment	33.33
Office equipment, fixtures and fittings	20
Computer software	10
Improvement on leased assets	Over the lease period

Plant and equipment under construction are not depreciated until the assets are ready for their intended use.

Depreciation methods, rates, useful lives and residual values are reviewed at the end of the reporting period and adjusted as appropriate.

Disposal and write-off

On disposal of a plant or equipment, the difference between the net disposal proceeds and its carrying amount is taken to profit or loss. Disposal proceeds may also apply to fully depreciated assets. Where the plant or equipment is no longer used, they will be written off.

(m) Intangible asset

Intangible asset represents admission fee and is measured at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible asset is calculated to write-off the cost of the intangible asset on a straight-line basis over the estimated useful life of 5 years. Intangible asset is subject to impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(n) Impairment

The carrying amounts of the Bank's non-financial assets (except for deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (known as cash-generating unit).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

3. Significant accounting policies (*continued*)

(n) Impairment (*continued*)

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or a group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (or a group of cash-generating units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(o) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognised as finance cost.

(p) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plan

The Bank's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

(q) Other receivables

Other receivables are initially recognised at their costs when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, other receivables are measured at amortised cost using the effective interest method.

3. Significant accounting policies (continued)**(r) Liabilities**

Deposits from customers, deposits and placements of banks and other financial institutions are stated at placement values.

Other liabilities are measured initially and subsequently at cost. Other liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(s) Earning per ordinary share

The Bank presents basic earnings per share (“EPS”) data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

No diluted EPS is presented in these financial statements as there are no dilutive potential ordinary shares.

(t) Fair value measurement

MFRS 13 prescribes that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank recognises transfers between levels of fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

4. Cash and short-term funds

	2017	2016
	RM’000	RM’000
Cash and balances with banks and other financial institutions	56,695	58,102
Money at call and deposit placements maturing within one month	1,006,164	896,354
	<u>1,062,859</u>	<u>954,456</u>

5. Deposits and placements with banks and other financial institutions

	2017	2016
	RM’000	RM’000
Bank Negara Malaysia	-	60,000
Foreign banks	-	28,047
Licensed Malaysian banks	150,000	200,000
	<u>150,000</u>	<u>288,047</u>

6. Financial investments available-for-sale

	2017	2016
	RM'000	RM'000
At fair value		
Malaysian Government Securities	100,280	90,071
Malaysian Government Investment Issues	111,352	79,875
Malaysian Government Sukuk	29,661	-
Financial Institutions securities	30,526	-
Private debt securities	80,290	-
Other debt securities		
- Cagamas bonds	19,985	-
	<u>372,094</u>	<u>169,946</u>

The maturity structure of financial investments available-for-sale is as follows:

Within one year	-	50,045
More than one year to three years	80,633	-
More than three years to five years	170,573	119,901
More than five years	120,888	-
	<u>372,094</u>	<u>169,946</u>

7. Financial investments held-to-maturity

	2017	2016
	RM'000	RM'000
At amortised cost		
Malaysian Government Investment Issues	<u>32,349</u>	<u>-</u>

The maturity structure of financial investments held-to-maturity is as follows:

More than three years to five years	<u>32,349</u>	<u>-</u>
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8. Loans, advances and financing

	2017	2016
	RM'000	RM'000
At amortised cost		
(i) By type		
Overdrafts	83,744	96,172
Term loans		
- Housing loans	63,829	54,683
- Syndicated term loans	485,755	181,512
- Other term loans	1,391,814	1,058,343
Bills receivable	10,613	14,480
Revolving credit	1,084,770	1,137,905
Bankers' acceptances	88,286	87,844
Staff loans	2,517	2,808
Credit card loans	2,869	2,486
	<u>3,214,197</u>	<u>2,636,233</u>
Gross loans, advances and financing		
Less: Allowance for impairment		
- Collective allowance for impairment	(27,399)	(13,966)
- Individual allowance for impairment	(1,127)	(2,080)
	<u>(28,526)</u>	<u>(16,046)</u>
Net loans, advances and financing	<u>3,185,671</u>	<u>2,620,187</u>

8. Loans, advances and financing (continued)

(ii) By type of customer	2017 RM'000	2016 RM'000
Domestic banking institutions		
Domestic non-bank financial institutions	64,021	75,217
- Others	100,210	100,188
Domestic business enterprises		
- Small medium enterprises	62,313	66,850
- Others	1,963,067	1,564,421
Individuals	47,247	47,378
Foreign entities	977,339	782,179
	<u>3,214,197</u>	<u>2,636,233</u>
(iii) By interest rate sensitivity	2017 RM'000	2016 RM'000
Fixed rate loans	5,386	5,294
Variable rate		
- Base rate/base lending rate plus	96,651	112,295
- Cost plus	2,976,494	2,383,145
- Other variable rates	135,666	135,499
	<u>3,214,197</u>	<u>2,636,233</u>
(iv) By sector	2017 RM'000	2016 RM'000
Primary agriculture	82,272	79,535
Manufacturing	829,100	654,048
Electricity, gas and water	67,827	179,819
Construction	162,592	149,366
Real estate	597,516	225,859
Wholesale & retail trade and restaurants & hotels	755,280	547,308
Transport, storage and communication	11,285	46,708
Finance, insurance and business services	433,198	505,574
Education, health and others	189,180	170,962
Household	85,947	77,054
	<u>3,214,197</u>	<u>2,636,233</u>
(v) By purpose	2017 RM'000	2016 RM'000
Purchase of properties		
- Non residential	156,703	177,375
- Residential	65,864	56,939
Purchase of transport vehicles	23	62
Construction	55,567	25,847
Credit card	2,869	2,486
Personal use	929	987
Mergers and acquisitions	27,734	179,819
Working capital	2,523,298	2,171,481
Other purpose	381,210	21,237
	<u>3,214,197</u>	<u>2,636,233</u>

8. Loans, advances and financing (continued)

(vi) By geographical distribution	2017	2016
	RM'000	RM'000
Within Malaysia	2,391,609	2,089,875
Outside Malaysia	822,588	546,358
	<u>3,214,197</u>	<u>2,636,233</u>

Concentration by location for loans, advances and financing is based on the geographical location where the credit risk resides.

(vii) By residual contractual maturity	2017	2016
	RM'000	RM'000
Maturity within one year	1,625,183	1,421,086
More than one year to three years	326,344	426,522
More than three years to five years	930,777	652,057
More than five years	331,893	136,568
	<u>3,214,197</u>	<u>2,636,233</u>

(viii) Impaired loans, advances and financing	2017	2016
	RM'000	RM'000
(a) Movement in impaired loans, advances and financing		
At 1 January	2,080	2,080
Impaired during the financial year	1,298	5
Reclassified as performing during the financial year	(171)	(5)
Amount written off during the financial year	(2,080)	-
At 31 December	<u>1,127</u>	<u>2,080</u>
Less: Individual allowance for impairment	<u>(1,127)</u>	<u>(2,080)</u>
Net impaired loans, advances and financing	<u>-</u>	<u>-</u>
As % of gross loans, advances and financing (net of individual allowance for impairment)	<u>0%</u>	<u>0%</u>

(b) By sector	2017	2016
	RM'000	RM'000
Wholesale & retail trade and restaurants & hotels	1,093	2,029
Household	34	51
	<u>1,127</u>	<u>2,080</u>

(c) By purpose	2017	2016
	RM'000	RM'000
Working capital	1,093	2,029
Credit card	34	51
	<u>1,127</u>	<u>2,080</u>

8. Loans, advances and financing (continued)**(viii) Impaired loans, advances and financing (continued)****(d) By geographical distribution**

	2017	2016
	RM'000	RM'000
Within Malaysia	34	2,080
Outside Malaysia	1,093	-
	<u>1,127</u>	<u>2,080</u>

(ix) Movements in allowance for impairment on loans, advances and financing

	2017	2016
	RM'000	RM'000
<u>Collective allowance for impairment</u>		
At 1 January	13,966	17,387
Allowance made during the financial year	16,353	3,631
Allowance written back	(3,091)	(7,052)
Exchange differences	171	-
At 31 December	<u>27,399</u>	<u>13,966</u>
As % of gross loans, advances and financing (net of individual allowance for impairment)	<u>0.85%</u>	<u>0.53%</u>
<u>Individual allowance for impairment</u>		
At 1 January	2,080	2,080
Allowance made during the financial year	1,384	5
Allowance written back during the financial year	(171)	(5)
Amount written off during the financial year	(2,080)	-
Exchange differences	(86)	-
At 31 December	<u>1,127</u>	<u>2,080</u>

9. Derivative financial assets/liabilities

	2017		
	Contract/ Nominal value RM'000	Assets RM'000	Liabilities RM'000
Foreign exchange contracts			
- Currency forwards and spots	663,122	14,010	13,951
- Currency swaps	514,249	1,929	1,809
Total recognised derivative assets/liabilities (Note 30)	<u>1,177,371</u>	<u>15,939</u>	<u>15,760</u>
	2016		
	Contract/ Nominal value RM'000	Assets RM'000	Liabilities RM'000
Foreign exchange contracts			
- Currency forwards and spots	130,294	2,271	2,247
- Currency swaps	23,046	258	-
Total recognised derivative assets/liabilities (Note 30)	<u>153,340</u>	<u>2,529</u>	<u>2,247</u>

10. Other assets

	2017	2016
	RM'000	RM'000
Interest receivable	7,616	4,653
Deposits	1,959	1,890
Other receivables and prepayments	1,600	735
	<u>11,175</u>	<u>7,278</u>

11. Statutory deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act, 2009. The amount of the Statutory Reserve Requirement is determined based on a set percentage of total eligible liabilities.

12. Plant and equipment

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Fixed assets under construction RM'000	Total RM'000
Cost						
At 1 January 2017	3,572	3,121	783	7,821	29	15,326
Additions	724	1,009	167	5,421	254	7,575
Written off	(31)	-	-	(2,010)	-	(2,041)
At 31 December 2017	<u>4,265</u>	<u>4,130</u>	<u>950</u>	<u>11,232</u>	<u>283</u>	<u>20,860</u>
Accumulated depreciation						
At 1 January 2017	2,537	1,941	227	6,098	-	10,803
Charge during the year	564	471	86	1,102	-	2,223
Written off	(31)	-	-	(1,826)	-	(1,857)
At 31 December 2017	<u>3,070</u>	<u>2,412</u>	<u>313</u>	<u>5,374</u>	<u>-</u>	<u>11,169</u>
Net carrying amount						
At 1 January 2017	<u>1,035</u>	<u>1,180</u>	<u>556</u>	<u>1,723</u>	<u>29</u>	<u>4,523</u>
At 31 December 2017	<u>1,195</u>	<u>1,718</u>	<u>637</u>	<u>5,858</u>	<u>283</u>	<u>9,691</u>

12. Plant and equipment (continued)

	Electronic equipment RM'000	Office equipment, fixtures and fittings RM'000	Computer software RM'000	Improvement on leased assets RM'000	Fixed assets under construction RM'000	Total RM'000
Cost						
At 1 January 2016	2,676	2,236	472	6,128	1,038	12,550
Additions	896	885	311	684	-	2,776
Transfer	-	-	-	1,009	(1,009)	-
At 31 December 2016	<u>3,572</u>	<u>3,121</u>	<u>783</u>	<u>7,821</u>	<u>29</u>	<u>15,326</u>
Accumulated depreciation						
At 1 January 2016	2,035	1,496	167	4,977	-	8,675
Charge during the year	502	445	60	1,121	-	2,128
At 31 December 2016	<u>2,537</u>	<u>1,941</u>	<u>227</u>	<u>6,098</u>	<u>-</u>	<u>10,803</u>
Net carrying amount						
At 1 January 2016	<u>641</u>	<u>740</u>	<u>305</u>	<u>1,151</u>	<u>1,038</u>	<u>3,875</u>
At 31 December 2016	<u>1,035</u>	<u>1,180</u>	<u>556</u>	<u>1,723</u>	<u>29</u>	<u>4,523</u>

13. Intangible asset

	Admission Fee	
	2017 RM'000	2016 RM'000
Cost		
At 1 January/31 December	<u>2,600</u>	<u>2,600</u>
Accumulated amortisation		
At 1 January	2,296	1,776
Charge during the year	304	520
At 31 December	<u>2,600</u>	<u>2,296</u>
Net carrying amount		
At 1 January	<u>304</u>	<u>824</u>
At 31 December	<u>-</u>	<u>304</u>

14. Deferred tax assets

	2017	2016
	RM'000	RM'000
At 1 January	5,835	4,058
Recognised in profit or loss (Note 26)	218	2,042
Recognised in equity	(5)	(265)
At 31 December	<u>6,048</u>	<u>5,835</u>

The components and movements of deferred tax assets and liabilities during the financial year are as follows:

	Plant and Equipment RM'000	Available- for-sale Reserve RM'000	Provisions RM'000	Total RM'000
Deferred tax assets/(liabilities)				
At 1 January 2017	(86)	181	5,740	5,835
Recognised in profit or loss (Note 26)	(22)	-	240	218
Recognised in equity	-	(5)	-	(5)
At 31 December 2017	<u>(108)</u>	<u>176</u>	<u>5,980</u>	<u>6,048</u>

	Plant and Equipment RM'000	Available- for-sale Reserve RM'000	Provisions RM'000	Total RM'000
Deferred tax assets/(liabilities)				
At 1 January 2016	4	446	3,608	4,058
Recognised in profit or loss (Note 26)	(90)	-	2,132	2,042
Recognised in equity	-	(265)	-	(265)
At 31 December 2016	<u>(86)</u>	<u>181</u>	<u>5,740</u>	<u>5,835</u>

15. Deposits from customers

(i) By type of deposits	2017	2016
	RM'000	RM'000
Demand deposits	941,186	808,759
Fixed deposits	1,170,990	517,921
Savings deposits	120,707	129,959
Money market deposits	568,285	1,282,204
Others	38,357	43,355
	<u>2,839,525</u>	<u>2,782,198</u>
	<u>2,839,525</u>	<u>2,782,198</u>
(ii) By type of customer	2017	2016
	RM'000	RM'000
Business enterprises	1,735,405	1,298,516
Individuals	250,890	272,448
Foreign entities	852,239	1,210,501
Others	991	733
	<u>2,839,525</u>	<u>2,782,198</u>
	<u>2,839,525</u>	<u>2,782,198</u>
(iii) By maturity structure of term deposits	2017	2016
	RM'000	RM'000
Due within six months	2,757,025	2,665,449
More than six months to one year	82,500	99,891
More than one year to three years	-	16,858
	<u>2,839,525</u>	<u>2,782,198</u>
	<u>2,839,525</u>	<u>2,782,198</u>

16. Deposits and placements of banks and other financial institutions

	2017	2016
	RM'000	RM'000
Licensed Malaysian banks	238,526	25,251
Licensed investment banks	325	147
Licensed Islamic banks	1,709	1,499
Other financial institutions	139,600	216,181
Foreign banks	526,820	13,562
	<u>906,980</u>	<u>256,640</u>
	<u>906,980</u>	<u>256,640</u>

17. Other liabilities

	2017	2016
	RM'000	RM'000
Interest payable	10,361	8,139
Other payables and accruals	54,771	61,749
	<u>65,132</u>	<u>69,888</u>
	<u>65,132</u>	<u>69,888</u>

18. Share capital

	Number of ordinary		Amount	
	2017 '000	2016 '000	2017 RM'000	2016 RM'000
Ordinary Shares				
Issued and fully paid				
At 1 January	832,609	331,000	832,609	331,000
Issued during the year	-	501,609	-	501,609
At 31 December	<u>832,609</u>	<u>832,609</u>	<u>832,609</u>	<u>832,609</u>

19. Reserves*19.1 Statutory reserve*

The statutory reserve is maintained in compliance with Section 12 of the Financial Services Act, 2013 (FSA) and is not distributable as cash dividend.

On 3 May 2017, BNM issued revised policy document on Capital Funds, whereby the requirement to maintain a reserve fund is no longer required, given the implementation of the Capital Conservation Buffer under the Capital Adequacy Framework. Therefore, during the financial year, the Bank has transferred RM57.213 million from Statutory Reserve to Retained Earnings.

19.2 Foreign currency translation reserve

The foreign currency translation reserve captures the foreign exchange currency translation differences in respect of Labuan branch operations.

19.3 Available-for-sale reserve

Available-for-sale reserve captures the fair value adjustment on financial assets which are classified as available-for-sale and its corresponding effect on deferred tax. The reserve is non-distributable and cumulative fair value adjustments will be reversed to profit or loss upon disposal of the assets.

19.4 Regulatory reserve

The Bank maintains a minimum level of impairment provisions which is in excess of the collective impairment provisions required under MFRSs. An amount of RM17.644 million (2016: RM17.644 million) from the retained earnings as of 31 December 2017 has been reserved for this purpose.

19.5 Retained earnings

The Finance Act 2007 introduced the single tier tax system with effect from 1 January 2008. Under this system, tax on a company's profits is a final tax and dividends are tax exempt in the hands of shareholders.

20. Interest income

	2017	2016
	RM'000	RM'000
Loans, advances and financing:		
- Interest income other than from impaired loans	122,962	89,375
Money at call and deposit placements with financial institutions	33,391	18,898
Financial investments available-for-sale	10,825	3,395
Financial investments held-to-maturity	66	-
Others	22	42
	<u>167,266</u>	<u>111,710</u>
Interest expense		
Deposits and placements of banks and other financial institutions	(7,418)	(8,163)
Deposits from customers	(42,499)	(34,144)
Others	(3)	(12)
	<u>(49,920)</u>	<u>(42,319)</u>
Net interest income	<u><u>117,346</u></u>	<u><u>69,391</u></u>

All items of interest income and expense were recognised from assets and liabilities that were not at fair value through profit or loss.

21. Fee income

	2017	2016
	RM'000	RM'000
Fee income:		
- Commission	20	34
- Service charges and fees	2,010	2,410
- Loan processing fees	3,117	1,115
- Syndication fees	6,978	983
- Guarantee fees	5,009	4,796
- Commitment fees	1,787	674
- Other loans related fees income	140	56
- Other fees income	4,924	5,306
	<u>23,985</u>	<u>15,374</u>
Fee expense:		
- Brokerage fees	(35)	(27)
- Other fees expense	(265)	(57)
	<u>(300)</u>	<u>(84)</u>
Net fee income	<u><u>23,685</u></u>	<u><u>15,290</u></u>

22. Net trading income

	2017	2016
	RM'000	RM'000
Net gains from dealing in foreign exchange	68,166	11,462
Net (losses)/gains arising from derivative trading	(12,973)	14,577
Net unrealised revaluation (loss)/gains in foreign exchange	(76)	192
Net unrealised losses arising from derivative trading	(103)	(308)
	<u>55,014</u>	<u>25,923</u>

23. Other operating income

	2017	2016
	RM'000	RM'000
Gain on disposal:		
- Financial investments available-for-sale	116	661
Others	165	62
	<u>281</u>	<u>723</u>

24. Other operating expenses

	2017	2016
	RM'000	RM'000
Personnel costs:		
- Salaries, allowance and bonuses (excluding Directors' remuneration)	45,268	36,604
- Directors' remuneration (Note 28 (c))	1,532	1,785
- Pension fund contributions	4,491	3,863
- Other staff costs	6,454	5,701
Promotion and marketing related expenses:		
- Advertising and promotion	466	1,612
- Others	852	739
Establishment costs:		
- Depreciation of plant and equipment	2,223	2,128
- Amortisation of intangible asset	304	520
- Rental	5,608	5,914
- Others	2,605	2,018
Administrative expenses:		
- Auditors' remuneration		
• statutory audit fees	320	270
- underprovision in prior year	-	10
• audit related services	143	106
- Professional fees	940	776
- Licence fee	304	307
- Membership fee	163	216
- Plant and equipment written off	184	-
- Others	6,003	5,326
	<u>77,860</u>	<u>67,895</u>

25. Allowance for/(write back of) impairment on loans, advances and financing

	2017	2016
	RM'000	RM'000
Collective allowance for impairment		
- Made during the financial year	16,353	3,631
- Written back during the financial year	(3,091)	(7,052)
Individual allowance for impairment		
- Made during the financial year	1,384	5
- Written back during the financial year	(171)	(5)
	<u>14,475</u>	<u>(3,421)</u>

26. Tax expense

	2017	2016
	RM'000	RM'000
Current tax expense		
- Current financial year	28,906	15,205
- (Over)/under provision in prior year	(528)	48
Total current tax recognised in profit or loss	<u>28,378</u>	<u>15,253</u>
Deferred taxation		
Origination and reversal of temporary differences	(218)	(2,042)
Total deferred tax recognised in profit or loss (Note 14)	<u>(218)</u>	<u>(2,042)</u>
	<u>28,160</u>	<u>13,211</u>

	2017	2016
	RM'000	RM'000
Reconciliation of tax expense		
Profit before taxation	<u>103,991</u>	<u>46,853</u>
Income tax using Malaysian tax rate @ 24%	24,958	11,245
Non-deductible expenses	3,730	1,918
(Over)/under provision of income tax expense in prior year	(528)	48
Tax expense	<u>28,160</u>	<u>13,211</u>

27. Basic earnings per ordinary share

The basic earnings per ordinary share has been calculated based on the profit attributable to equity holder of the Bank of RM75,831,000 (2016: RM33,642,000) and weighted average number of ordinary shares outstanding during the year of 832,609,000 (2016: 414,601,500) ordinary shares in issue during the financial year.

28. Significant related party transactions and balances

(a) The significant transactions of the Bank with its holding company and other related entities are as follows:

	2017		2016	
	RM'000 Holding Company	RM'000 Related Companies	RM'000 Holding Company	RM'000 Related Companies
Income				
<i>Interest income</i>				
- Deposits and placements with banks and other financial institutions	2,695	3,240	382	308
Expenses				
<i>Interest expense</i>				
- Deposits and placements of banks and other financial institutions	3,035	399	92	-
<i>Other operating expenses</i>				
- Other charges	34	1	28	1

(b) The significant outstanding balances of the Bank with its holding company and other related entities are as follows:

	2017		2016	
	RM'000 Holding Company	RM'000 Related Companies	RM'000 Holding Company	RM'000 Related Companies
Amount due from				
- Cash and short-term funds	29,245	1,645	59,675	187,769
- Deposits and placements with banks and other financial institutions	58,792	-	19,369	8,677
- Other assets	31	-	29	5
Amount due to				
- Deposits and placements of banks and other financial institutions	525,367	-	12,715	-
- Other liabilities	2,490	-	-	-

28. Significant related party transactions and balances (continued)

All transactions of the Bank with its related parties are made in the ordinary course of business and on substantially the same terms, including interest rates, with third parties.

There is no amount outstanding from key management personnel as at year end.

(c) Key management personnel compensation

The remuneration of key management personnel, being the members of the Board of Directors of the Bank, during the financial year are shown below:

	2017	2016
	RM'000	RM'000
Executive Director and CEO		
<i>Mr. Wang Qiang</i>		
- Salaries	995	-
- Bonus	29	-
- Other allowances	260	-
	1,284	-
<i>Mr. Yuan Bin</i>		
- Salaries	-	904
- Bonus	-	549
- Other allowances	-	116
	-	1,569
Non-Executive Directors' fees		
<i>YBhg Dato' Leong Khee Seong</i>	104	108
<i>Mr. Ong Ah Tin @ Ong Chee Kwee</i>	104	108
<i>Mr. Chin Chee Kong</i>	40	-
	248	216
	1,532	1,785
	Note 24	Note 24

29. Credit exposure to connected parties

The credit exposures of the Bank to connected parties, as defined by BNM's "Guidelines on Credit Transactions and Exposures with Connected Parties" are as follows:

	2017	2016
	RM'000	RM'000
Aggregate value of outstanding credit exposures to connected parties	135,696	185,166
As a percentage of total credit exposures	2.44%	3.85%
Percentage of outstanding credit exposures to connected parties which are non-performing or in default	0%	0%

30. Commitments and contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies constitute the following:

	2017			
	Principal Amount RM'000	Positive Value of Derivative Contracts ^ RM'000	Credit Equivalent Amount * RM'000	Risk- Weighted Assets * RM'000
<u>Credit-related exposures</u>				
Direct credit substitutes	72,854	-	72,854	14,571
Transaction-related contingent items	801,460	-	400,730	264,760
Short term self-liquidating trade-related contingencies	42,068	-	8,414	8,349
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	131,732	-	65,866	61,631
- Not exceeding one year	942,345	-	188,469	159,126
Unutilised credit card lines	38,145	-	7,629	5,722
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	1,177,371	15,939	32,272	16,145
Total	3,205,975	15,939	776,234	530,304
		Note 9		

^ The foreign exchange related contracts are off-balance sheet derivative financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates and interest rates) of the underlying instruments. The underlying principal amounts of these derivative financial instruments and their corresponding gross positive fair values (derivative financial assets) as at respective reporting dates are as shown above.

* The credit equivalent and risk-weighted amounts are computed using credit conversion factors and risk-weighting rules as per BNM guidelines. The credit conversion factors and risk-weighting rules were based on guidelines of the revised Capital Adequacy Framework on the Standardised Approach.

30. Commitments and contingencies (continued)

	2016			
	Principal Amount RM'000	Positive Value of Derivative Contracts ^ RM'000	Credit Equivalent Amount * RM'000	Risk- Weighted Assets * RM'000
<u>Credit-related exposures</u>				
Direct credit substitutes	80,746	-	80,746	16,149
Transaction-related contingent items	1,032,166	-	516,083	347,834
Short term self-liquidating trade-related contingencies	24,428	-	4,886	4,877
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- Exceeding one year	115,112	-	57,556	45,241
- Not exceeding one year	748,759	-	149,752	119,112
Unutilised credit card lines	32,708	-	6,542	4,906
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	153,340	2,529	4,020	1,834
Total	2,187,259	2,529	819,585	539,953

Note 9

^ The foreign exchange related contracts are off-balance sheet derivative financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates and interest rates) of the underlying instruments. The underlying principal amounts of these derivative financial instruments and their corresponding gross positive fair values (derivative financial assets) as at respective reporting dates are as shown above.

* The credit equivalent and risk-weighted amounts are computed using credit conversion factors and risk-weighting rules as per BNM guidelines. The credit conversion factors and risk-weighting rules were based on guidelines of the revised Capital Adequacy Framework on the Standardised Approach.

31. Lease commitments

The Bank has lease commitments in respect of rented premises, all of which are classified as operating leases. A summary of the long-term lease commitments are as follows:

	2017 RM'000	2016 RM'000
Within one year	5,542	6,339
After one year but not more than five years	5,599	2,770
	<u>11,141</u>	<u>9,109</u>

32. Capital adequacy

The total risk-weighted assets of the Bank are computed based on the following approaches:

- (i) Standardised Approach for Credit risk;
- (ii) Standardised Approach for Market risk;
- (iii) Basic Indicator Approach for Operational risk.

The capital adequacy ratios of the Bank are analysed as follows:

	2017 RM'000	2016 RM'000
Common Equity Tier 1 (“CET1”) Capital		
Paid-up share capital	832,609	832,609
Retained earnings	175,783	42,739
Statutory reserve	-	57,213
Regulatory reserve	17,644	17,644
Foreign currency translation reserve	253	-
Unrealised losses on financial investments available-for-sale	(556)	(573)
	<u>1,025,733</u>	<u>949,632</u>
Less: Regulatory adjustments applied in calculation of CET1 Capital		
- Intangible asset	-	(304)
- Deferred tax assets	(6,048)	(5,835)
- Regulatory reserve attributable to loans, advances and financing	(17,644)	(17,644)
	<u>(23,692)</u>	<u>(23,783)</u>
Total CET1 Capital	<u>1,002,041</u>	<u>925,849</u>
Tier 2 Capital		
Collective impairment allowance	27,399	13,966
Regulatory reserve	17,644	17,644
Total Tier 2 Capital	<u>45,043</u>	<u>31,610</u>
Total Capital	<u>1,047,084</u>	<u>957,459</u>
CET1 capital ratio	28.501%	37.828%
Tier 1 capital ratio	28.501%	37.828%
Total capital ratio	29.782%	39.120%

Breakdown of gross risk-weighted assets (“RWA”) in the various categories of risk-weights:

	2017		2016	
	Principal RM'000	Risk- Weighted Assets RM'000	Principal RM'000	Risk- Weighted Assets RM'000
Total RWA for credit risk	5,647,850	3,240,863	4,888,871	2,253,430
Total RWA for market risk	-	16,463	-	4,797
Total RWA for operational risk	-	258,530	-	189,282
	<u>5,647,850</u>	<u>3,515,856</u>	<u>4,888,871</u>	<u>2,447,509</u>

33. Fair values of financial assets and financial liabilities

Recognised financial instruments (continued)

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

(a) Cash and short-term funds/Deposits and placements with banks and other financial institutions

For cash and short-term funds and deposits and placements with banks and other financial institutions including interest-earning deposits, the carrying amounts are a reasonable estimate of the fair values because of their short-term nature (less than one year) and limited credit risk.

(b) Financial investments available-for-sale and held-to-maturity

Fair values of investment securities are estimated based on broker/dealer price quotation.

(c) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturity of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at the respective reporting dates offered for similar loans. In respect of impaired loans, the fair values are deemed to approximate the carrying values, net of individual assessment impairment allowance.

(d) Deposits from customers

The fair values of demand deposits and saving deposits maturing within a short period of time are the amounts payable on demand. Fair values of fixed deposits maturing within a year are estimated to approximate their carrying amounts. For deposits with maturity exceeding one year, the fair values are estimated using discounted cash flows based on market rates at the respective reporting dates for similar products and maturity.

(e) Deposits and placements of banks and other financial institutions

The fair values of non-interest bearing deposits are equal to amounts payable on demand. For deposits with maturity exceeding one year, fair values are estimated by discounting the estimated future cash flows based on market rates at the respective reporting dates for deposits with similar maturity.

33. Fair values of financial assets and financial liabilities (continued)**Recognised financial instruments (continued)****Valuation of financial instruments**

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
2017								
Financial assets								
Deposits and placements with banks and other financial institutions	-	-	-	-	-	150,000	150,000	150,000
Financial investments available-for-sale (Note 6)	-	341,568	30,526	-	-	-	372,094	372,094
Financial investments held-to-maturity (Note 7)	-	32,349	-	-	-	-	32,349	32,349
Loans, advances and financing	-	-	-	-	-	3,184,865	3,184,865	3,185,671
Derivative financial assets (Note 9)	-	15,939	-	-	-	-	15,939	15,939
	-	389,856	30,526	-	-	3,334,865	3,755,247	3,756,053
Financial liabilities								
Deposits from customers	-	-	-	-	-	2,839,525	2,839,525	2,839,525
Deposits and placements of banks and other financial institutions	-	-	-	-	-	906,980	906,980	906,980
Derivative financial liabilities (Note 9)	-	15,760	-	-	-	-	15,760	15,760
	-	15,760	-	-	-	3,746,505	3,762,265	3,762,265

33. Fair values of financial assets and financial liabilities (continued)*Recognised financial instruments (continued)**Valuation of financial instruments (continued)*

	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
2016								
Financial assets								
Deposits and placements with banks and other financial institutions	-	-	-	-	-	288,047	288,047	288,047
Financial investments available-for-sale (Note 6)	-	169,946	-	-	-	-	169,946	169,946
Loans, advances and financing	-	-	-	-	-	2,619,150	2,619,150	2,620,187
Derivative financial assets (Note 9)	-	2,529	-	-	-	-	2,529	2,529
	-	172,475	-	-	-	2,907,197	3,079,672	3,080,709
Financial liabilities								
Deposits from customers	-	-	-	-	-	2,782,198	2,782,198	2,782,198
Deposits and placements of banks and other financial institutions	-	-	-	-	-	256,640	256,640	256,640
Derivative financial liabilities (Note 9)	-	2,247	-	-	-	-	2,247	2,247
	-	2,247	-	-	-	3,038,838	3,041,085	3,041,085

33. Fair values of financial assets and financial liabilities (continued)***Valuation of financial instruments (continued)***

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for identical financial assets or liabilities that the entity can access at the measurement date.
- Level 2: Valuation techniques based on observable inputs, either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted prices for identical or similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.
- Level 3: Valuation techniques of financial assets and liabilities using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used in the market. The objective of valuation techniques is to arrive at fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

Transfer between fair value

There has been no transfer in any levels of the fair values during the financial year (2016: no transfer in either directions).

34. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following material risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks.

Risk management framework

The Board of Directors establishes the Bank's risk appetite and risk principles. The Board Risk Management Committee ("BRMC") is the principal board committee that oversees the Bank's risk management. It reviews the Bank's overall risk management framework and major risk policies. The BRMC is supported by both Management Risk Management Committee ("MRMC") at management level and Risk Management Department.

MRMC has been established for active Senior Management oversight, understanding, and formulating policies, profiles, and activities pertaining to the relevant risk types. All major risk policies have to be deliberated at relevant functional management committees (including MRMC) prior to escalation to BRMC and Board of Directors for approval.

The Bank's risk management policies are established to identify the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Unsecured exposures are managed in a prudent manner and collaterals are taken whenever required as risk mitigation measures. The Bank endeavours to manage its unsecured exposures by diversifying to a larger pool of clients to promote a more effective use of capital. Risk management policies and systems are reviewed regularly to reflect changes in the market condition, products and services offered. Periodic credit review is performed on the Bank's loan portfolio to assess the impact of changes in economic environment to the Bank's exposures and the collaterals taken. In order to ensure that credit decision-making remains consistent with the Bank's overall credit risk management arrangement, an independent post credit review ("PCR") function has been formed. The PCR function is to ensure both the quality of credit risk assessment and rigour of credit approval processes. The PCR is also to ensure credit decisions made are in accordance with the Bank's credit risk strategy and credit risk policy. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee, supported by Internal Audit Department, provides an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls, and compliance with risk policies and regulatory requirements.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank due to failure of the Bank's customers or counterparties in meeting their contractual financial obligations. The credit risk comes primarily from the Bank's cash and deposits/placements, direct lending, trade finance and funding activities.

Management of credit risk

The Board of Directors has delegated the responsibility for the oversight of credit risk to the Credit Committee and MRMC. These committees are supervised by the Senior Management Committee.

The functions of the Credit Committee are as follows:

- Ensuring prudent underwriting standards that are consistent with the Bank's risk appetite and lending direction
- Deliberation of lending propositions and credit related requests

34. Financial risk management (continued)**(b) Credit risk (continued)**

The functions of the MRMC are as follows:

- Reviewing the Bank's credit risk management profile
- Reviewing and deliberation of credit policies
- Reviewing the credit risk appetite of the Bank
- Ensuring effective credit risk management is in place

The Bank employs a credit risk grading system as a tool for determining the credit risk profile of borrowers or counterparties using appropriate form of scorecards. The credit grades are used as a basis to support the underwriting of credit and are mapped accordingly to the credit rating scales of major international credit rating agencies.

Allowances for impairment

A collective impairment allowance is performed on "collective basis" on the Bank's loan portfolio using statistical techniques with the necessary adjustments to the credit grades and probability of defaults of the respective credit grade bands of the loans in order to guard against the risk of judgement error in the credit grading process. Although the credit grading process would involve qualitative assessment which is subject to judgement error, the loans within the same credit grade band generally share the similar credit risk characteristics for collective assessment. Given the lack of historical loss experience and data will be taken for consideration to derive the model risk adjustment.

In the case of individual assessment, a loan is deemed as impaired if there is objective evidence of impairment which is triggered by certain events. In general, loans that are not repaid on time as they come due, be it the principal or interest, will be monitored closely as the likelihood of impairment from these past due loans is expected to be higher. The methodology adopted for collective impairment assessment and the list of trigger events for individual impairment assessment will be reviewed on a regular basis to suit the Bank's policy and the traits of its loan portfolio.

Loans, advances and financing past due but not impaired

Past due but not impaired loans, advances and financing are loans/financing where the customer has failed to make a principal or interest payment when contractually due, and includes loans/financing which are due one or more days after the contractual due date but less than three months.

Write-off policy

Clear write-off policy is established to stipulate the approving authority, escalation process and circumstances under which a loan can be written-off. The determination is made after considering information such as the occurrence of material adverse changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the exposure.

34. Financial risk management (continued)**(b) Credit risk (continued)***(i) Exposure to credit risk*

2017	Loans, Advances and Financing to Customers RM'000	Loans, Advances and Financing to Banks* RM'000	Investment Securities RM'000
Carrying amount	3,185,671	1,212,859	404,443
Assets at amortised cost			
Individually impaired	1,127	-	-
Allowance for impairment	(1,127)	-	-
	-	-	-
Past due but not impaired			
Carrying amount	165	-	-
Past due comprises			
- Less than one month	112	-	-
- Between one to two months	9	-	-
- Between two to three months	44	-	-
	165	-	-
Neither past due nor impaired			
- Pass	3,212,905	1,212,859	404,443
Collective allowance for impairment	(27,399)	-	-
Carrying amount - amortised cost	3,185,671	1,212,859	404,443
Available-for-sale (AFS)			
Neither past due nor impaired			
- Pass	-	-	372,094
Carrying amount - fair value	-	-	372,094
Held-to-maturity (HTM)			
Neither past due nor impaired			
- Pass	-	-	32,349
Carrying amount - fair value	-	-	32,349

In addition to the above, the Bank had entered into lending commitments of RM1.11 billion. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM916.38 million.

* Consists of cash and short-term funds and deposits and placements with banks and other financial institutions.

The Bank holds collateral against loans, advances and financing to customers in the form of fixed deposits, properties and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of loan origination and subsequent reviews.

34. Financial risk management (continued)**(b) Credit risk (continued)***(i) Exposure to credit risk (continued)*

2016	Loans, Advances and Financing to Customers RM'000	Loans, Advances and Financing to Banks* RM'000	Investment Securities RM'000
Carrying amount	2,620,187	1,242,503	169,946
Assets at amortised cost			
Individually impaired	2,080	-	-
Allowance for impairment	(2,080)	-	-
	-	-	-
Past due but not impaired			
Carrying amount	201	-	-
Past due comprises			
- Less than one month	169	-	-
- Between one to two months	22	-	-
- Between two to three months	10	-	-
	201	-	-
Neither past due nor impaired			
- Pass	2,633,952	1,242,503	169,946
Collective allowance for impairment	(13,966)	-	-
Carrying amount - amortised cost	2,620,187	1,242,503	169,946
Available-for-sale (AFS)			
Neither past due nor impaired			
- Pass	-	-	169,946
Carrying amount - fair value	-	-	169,946

In addition to the above, the Bank had entered into lending commitments of RM896.58 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM1.14 billion.

* Consists of cash and short-term funds and deposits and placements with banks and other financial institutions.

The Bank holds collateral against loans, advances and financing to customers in the form of fixed deposits, properties and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of loan origination and subsequent reviews.

34. Financial risk management (continued)**(b) Credit risk (continued)***(ii) Concentration by sector and geographical location*

The Bank monitors the concentration of credit risk by sector and by geographical distribution. An analysis of the concentration of credit risk as at the respective reporting dates are shown below:

	2017	2016
	Loans, Advances and Financing to Banks*	Loans, Advances and Financing to Banks*
	RM'000	RM'000
Carrying amount	1,212,859	1,242,503
Concentration of credit risk based on sector		
Financial services	1,143,024	887,490
Government and central bank	69,835	355,013
	<u>1,212,859</u>	<u>1,242,503</u>
Concentration of credit risk based on geographical location		
Malaysia	1,111,498	963,705
East Asia	18,001	203,429
South East Asia	56,195	65,277
United States of America	25,110	5,617
Europe	1,564	3,523
Oceania	491	952
	<u>1,212,859</u>	<u>1,242,503</u>

* Consists of cash and short-term funds and deposits and placements with banks and other financial institutions.

Concentration of credit risk by geographical distribution for loans, advances and financing is measured based on the location of the borrower.

Concentration by sector and geographical distribution for loans, advances and financing to customers are disclosed under Notes 8 (iv) and 8 (vi) to the financial statements.

	2017	2016
	Investment Securities	Investment Securities
	RM'000	RM'000
Carrying amount	404,443	169,946
Concentration of credit risk based on sector		
Financial services	30,526	-
Government and central bank	273,642	169,946
Others	100,275	-
	<u>404,443</u>	<u>169,946</u>
Concentration of credit risk based on geographical location		
Malaysia	404,443	169,946

Concentration of credit risk by geographical distribution for investment securities is measured based on the location of the issuer.

34. Financial risk management (continued)**(b) Credit risk (continued)***(iii) Derivatives risk*

The Bank's derivatives may give rise to risks in the event the counterparty defaults. Control measures, such as limit setting and monitoring, are in place to manage the risk.

(iv) Settlement risk

The Bank's activities may give rise to risks at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash or other assets as contractually agreed.

(c) Liquidity risk

Liquidity risks are the risks when the Bank fails to raise funds to meet the present or future demand of customers or counterparties at a reasonable cost. The potential liquidity risks of the Bank mainly include customers' premature and collective withdrawal, overdue repayment from debtors, mismatched asset-liability maturity structure and difficulties in realisation of assets.

Management of liquidity risk

The management of liquidity and funding has been carried out in compliance with regulatory requirement as well as management requirement and limits set by the Assets and Liabilities Committee ("ALCO"). The Bank maintains a strong liquidity position and constantly manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flow requirements are appropriately satisfied and all obligations are met accordingly.

It is imperative for the Bank to continuously seek and maintain new sources of funding to increase and diversify its funding base.

Cash flows payable by the Bank (financial liabilities) based on remaining contractual maturity:

	2017				Total RM'000
	On demand RM'000	Due within 3 months RM'000	Between 3 to 12 months RM'000	Between 1 to 3 years RM'000	
Deposits from customers	1,084,201	1,516,483	254,854	-	2,855,538
Deposits and placements of banks and other financial institutions	28,650	656,112	233,830	-	918,592
Derivative financial liabilities	-	2,150	13,610	-	15,760
Other liabilities	54,771	-	-	-	54,771
	1,167,622	2,174,745	502,294	-	3,844,661

	2016				Total RM'000
	On demand RM'000	Due within 3 months RM'000	Between 3 to 12 months RM'000	Between 1 to 3 years RM'000	
Deposits from customers	961,140	1,664,636	152,150	16,858	2,794,784
Deposits and placements of banks and other financial institutions	41,235	142,614	79,188	-	263,037
Derivative financial liabilities	-	2,247	-	-	2,247
Other liabilities	61,749	-	-	-	61,749
	1,064,124	1,809,497	231,338	16,858	3,121,817

34. Financial risk management (continued)**(c) Liquidity risk (continued)**

The balances in the above table will not agree directly with the balances in the statement of financial position as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future interest payments.

Cash flows payable in respect of deposits from customers are primarily contractually repayable on demand or at short notice. However, in practice, short term deposit balances remain stable and cash flow position has been actively managed.

Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts:

	2017		
	Contract/ Nominal Amount Up to 1 year RM'000	Positive Fair Value Up to 1 Year RM'000	Negative Fair value Up to 1 Year RM'000
Trading derivatives			
Foreign exchange contracts			
- Currency forwards and spots	663,122	14,010	13,951
- Currency Swaps	514,249	1,929	1,809
	1,177,371	15,939	15,760
	2016		
	Contract/ Nominal Amount Up to 1 year RM'000	Positive Fair Value Up to 1 Year RM'000	Negative Fair value Up to 1 Year RM'000
Trading derivatives			
Foreign exchange contracts			
- Currency forwards and spots	130,294	2,271	2,247
- Currency Swaps	23,046	258	-
	153,340	2,529	2,247

(d) Market risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads and foreign exchange rates.

Management of market risk

The Bank's market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardising the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to manage and control market risk exposures within the tolerable levels set and maximise risk-adjusted return according to the Bank's risk preference.

The Bank does not engage in any proprietary trading activities. Exposures arising from normal banking activities (deposits, loans, foreign exchange, etc) are hedged accordingly to minimise and preferably eliminate exposure to market risk. All risks related to treasury money market activities will be managed according to, and within the authorised risk limits.

34. Financial risk management (continued)**(d) Market risk (continued)***Foreign exchange risk*

Foreign exchange risk is the risk that arises as a result of movements in the relative value of currencies. The Bank is exposed to foreign exchange risk on transactions that are denominated in currencies other than its functional currency. The Bank minimises its exposure to foreign exchange risk through hedging and limiting the net open position of the foreign exchange portfolio.

The following tables summarise the assets, liabilities and net open position by currency as at the reporting date, which are mainly in Ringgit Malaysia, United States Dollars and Chinese Renminbi. Other currencies include exposure to Euro, Australia Dollars, Great Britain Pounds, Hong Kong Dollars, Japanese Yen, Canadian Dollars and Singapore Dollars.

	Malaysia Ringgit RM'000	United States Dollars RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
2017					
ASSETS					
Cash and short-term funds	758,849	232,095	57,982	13,933	1,062,859
Deposits and placements with banks and other financial institutions	150,000	-	-	-	150,000
Financial investments available- for-sale	341,568	-	30,526	-	372,094
Financial investments held- to-maturity	32,349	-	-	-	32,349
Loans, advances and financing	1,196,568	1,856,693	15,579	116,831	3,185,671
Derivative financial assets	15,873	-	66	-	15,939
Other assets	10,224	184	656	111	11,175
Statutory deposits with Bank Negara Malaysia	20,378	-	-	-	20,378
Plant and equipment	9,691	-	-	-	9,691
Intangible asset	-	-	-	-	-
Deferred tax assets	6,048	-	-	-	6,048
TOTAL ASSETS	2,541,548	2,088,972	104,809	130,875	4,866,204
LIABILITIES					
Deposits from customers	1,316,291	1,404,928	101,722	16,584	2,839,525
Deposits and placements of banks and other financial institutions	150,294	625,956	17,027	113,703	906,980
Derivative financial liabilities	5	15,665	-	90	15,760
Other liabilities	37,915	26,338	716	163	65,132
Provision for taxation	13,074	-	-	-	13,074
TOTAL LIABILITIES	1,517,579	2,072,887	119,465	130,540	3,840,471

34. Financial risk management (continued)**(d) Market risk (continued)***Foreign exchange risk (continued)*

	Malaysia Ringgit RM'000	United States Dollars RM'000	Chinese Renminbi RM'000	Others RM'000	Total RM'000
2016					
ASSETS					
Cash and short-term funds	501,806	373,015	70,351	9,284	954,456
Deposits and placements with banks and other financial institutions	260,000	-	19,370	8,677	288,047
Financial investments available- for-sale	169,946	-	-	-	169,946
Loans, advances and financing	1,064,895	1,488,457	66,835	-	2,620,187
Derivative financial assets	1	26	242	2,260	2,529
Other assets	7,123	125	30	-	7,278
Statutory deposits with Bank Negara Malaysia	10,580	-	-	-	10,580
Plant and equipment	4,523	-	-	-	4,523
Intangible asset	304	-	-	-	304
Deferred tax assets	5,835	-	-	-	5,835
TOTAL ASSETS	2,025,013	1,861,623	156,828	20,221	4,063,685
LIABILITIES					
Deposits from customers	821,060	1,801,610	135,271	24,257	2,782,198
Deposits and placements of banks and other financial institutions	228,957	734	26,947	2	256,640
Derivative financial liabilities	118	-	2,129	-	2,247
Other liabilities	35,362	27,345	7,176	5	69,888
Provision for taxation	3,080	-	-	-	3,080
TOTAL LIABILITIES	1,088,577	1,829,689	171,523	24,264	3,114,053

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34. Financial risk management (continued)**(d) Market risk (continued)***Interest rate risk*

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following tables summarise the Bank's exposure to interest rate risk at the respective balance sheet dates and the periods in which they reprice or mature, whichever is earlier.

2017	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Assets								
Cash and short-term funds	1,048,733	-	-	-	-	14,126	1,062,859	
Deposits and placements with banks and other financial institutions	-	150,000	-	-	-	-	150,000	
Financial investments available-for-sale	-	-	-	251,206	120,888	-	372,094	
Financial investments held-to-maturity	-	-	-	32,349	-	-	32,349	
Loans, advances and financing:								
- performing	1,254,723	1,275,038	650,752	2,761	2,397	-	3,185,671	
Other assets ^	-	-	-	-	-	63,231	63,231	
Total assets	2,303,456	1,425,038	650,752	286,316	123,285	77,357	4,866,204	
Liabilities								
Deposits from customers	1,689,959	889,300	241,166	-	-	19,100	2,839,525	
Deposits and placements of banks and other financial institutions	149,902	529,538	227,540	-	-	-	906,980	
Other liabilities *	-	-	-	-	-	93,966	93,966	
Total liabilities	1,839,861	1,418,838	468,706	-	-	113,066	3,840,471	
Equity	-	-	-	-	-	1,025,733	1,025,733	
Total liabilities and equity	1,839,861	1,418,838	468,706	-	-	1,138,799	4,866,204	
On-balance sheet interest sensitivity gap	463,595	6,200	182,046	286,316	123,285	(1,061,442)	-	
Total interest sensitivity gap	463,595	6,200	182,046	286,316	123,285	(1,061,442)	-	

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34. Financial risk management (continued)**(d) Market risk (continued)***Interest rate risk (continued)*

2016	Non-trading book						Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	
Assets							
Cash and short-term funds	940,417	-	-	-	-	14,039	-
Deposits and placements with banks and other financial institutions	-	88,047	200,000	-	-	-	-
Financial investments available-for-sale	-	50,045	-	119,901	-	-	-
Loans, advances and financing: - performing	1,052,347	1,001,889	560,863	2,425	2,663	-	-
Other assets ^	-	-	-	-	-	31,049	-
Total assets	1,992,764	1,139,981	760,863	122,326	2,663	45,088	-
Liabilities							
Deposits from customers	1,255,684	1,359,469	145,021	-	-	22,024	-
Deposits and placements of banks and other financial institutions	83,125	97,000	76,515	-	-	-	-
Other liabilities *	-	-	-	-	-	75,215	-
Total liabilities	1,338,809	1,456,469	221,536	-	-	97,239	-
Equity							
Total liabilities and equity	1,338,809	1,456,469	221,536	-	-	949,632	-
On-balance sheet interest sensitivity gap	653,955	(316,488)	539,327	122,326	2,663	(1,001,783)	-
Total interest sensitivity gap	653,955	(316,488)	539,327	122,326	2,663	(1,001,783)	-

^ Other assets include other assets, statutory deposits with BNM, derivative financial assets, plant and equipment, intangible asset and deferred tax assets as disclosed in the statement of financial position.

* Other liabilities include other liabilities, derivative financial liabilities and provision for taxation as disclosed in the statement of financial position.

34. Financial risk management (continued)**(d) Market risk (continued)***Interest rate risk (continued)*

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, are as follows:

(i) Sensitivity of projected net interest

	100 bps* Parallel Increase RM'000	100 bps* Parallel Decrease RM'000
At 31 December 2017	<u>13,688</u>	<u>(13,688)</u>
At 31 December 2016	<u>13,637</u>	<u>(13,637)</u>

**bps - basis points*

(ii) Sensitivity of reported reserves in "other comprehensive income" to interest rate movements

	100 bps* Parallel Increase RM'000	100 bps* Parallel Decrease RM'000
At 31 December 2017	<u>(13,587)</u>	<u>13,587</u>
At 31 December 2016	<u>(4,771)</u>	<u>4,771</u>

**bps - basis points*

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk.

Every department is responsible for understanding the operational risks inherent in its material products, activities, processes and systems. They are responsible for the management of operational risk on a day-to-day basis. The Bank has adopted the following standards and management measures in managing operational risk:

- requirement for appropriate segregation of duties, including independent authorisation of transactions
- requirements for reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where applicable

35. Capital management

Regulatory capital

The Bank's lead regulator, BNM, sets and monitors capital requirement for the Bank. The Bank is required to comply with the provisions of the Basel II and III frameworks in respect of regulatory capital adequacy.

The Bank adopts a prudent and forward-looking capital management approach to ensure it has adequate capital to support its operations at all times. On top of the minimum regulatory capital requirements, a buffer is added on to arrive at the Bank's internal capital target to ensure adequacy of capital to support the current and anticipated business growth. Internal Capital Adequacy Assessment Process ("ICAAP") is formulated to identify the material risks in the business. The material risk areas that are taken into consideration are credit risk, market risk, operational risk, credit concentration risk, liquidity risk, interest rate risk in banking book, compliance risk, strategic risk as well as reputation risk.

Internal capital assessment is carried out to determine the level of internal capital required by the Bank based on the Pillar 1 and 2 requirements as well as actual results of the preceding financial year (as the base case). Capital plan, business plan and budget are approved by the Board of Directors on annual basis. The business plan in particular would set out the Bank's risk appetite to be in line with the lending direction and business strategies for the coming year. Senior Management is responsible in ensuring a smooth development and implementation of the ICAAP policy as well as effective systems and processes are in place. The Bank's performance against the internal capital level is reviewed on a regular basis by the Senior Management. Should there be a need for capital raising exercise, it will be presented to the Board of Directors for approval.

The Bank undertakes stress test exercise on half yearly basis to assess the Bank's capability to withstand the adverse environment. The stress test will at least cover the exceptional but plausible event and the worst case scenario. The possible impact to the Bank due to occurrence of adverse events, i.e. significant deterioration in borrowers' credit profile, decline in collateral value, erosion in the Bank's net interest margin and sizeable foreign exchange loss will be examined. The results of the stress test together with the proposed mitigating actions shall be tabled to the Senior Management and the Board of Directors for deliberations.

The Bank's regulatory capital are analysed as follows:

- (a) Tier 1 Capital, which comprises the following:
 - Common Equity Tier 1 ("CET1") Capital, which includes ordinary share capital, share premium, retained earnings (net of dividends declared), statutory reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purpose.
 - Additional Tier 1 Capital, which consists of instruments that are issued and paid-up, subordinated to depositors and perpetual in nature (amongst all other criteria) which are not included in CET1 Capital, the share premium arising from issuance of such instruments as well as the regulatory adjustments in relation to the calculation of Additional Tier 1 Capital.
- (b) Tier 2 Capital includes collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired) and regulatory reserve.